Special Issue on State Rural Development Policy (A Tribute to Ron Shaffer)
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Linking Research and Rural Development Policy: 
An Introduction to the Special Issue

Edward Feser
University of Illinois at Urbana-Champaign - USA

“I am amazed, observing some of the policy debates about rural and urban development, by the general lack of participation of regional scientists, even indirectly, in the dialogue… I see us talking to ourselves” (Shaffer 1995, p. 224).

The late Professor Ronald E. Shaffer, distinguished agricultural economist and regional scientist of the University of Wisconsin, actively sought to bridge the divide between the worlds of research and policy making. As a young faculty member with a joint appointment in the Department of Agricultural and Applied Economics and University of Wisconsin-Extension, and later through his leadership of the UW-Extension Center for Community Economic Development and the National Rural Economic Development Institute, he accumulated considerable experience working directly with communities, states and the federal government on regional development issues and challenges (Deller et al. 2006). His concerns about the notable absence of the participation of regional scientists in policy debates, expressed in an article commemorating the 40th anniversary of the Regional Science Association, should give regional scientists pause, as it is a field that claims policy relevance and applied scholarship among its specialties. This special issue grew out of initiatives to honor Professor Shaffer’s work and heed his call for regional scholars to engage with policy makers.

The problem Shaffer noted is not unique to regional science. Planning, geography, environmental science, economics, and agricultural economics, among other disciplines, also make significant contributions to the understanding of urban and rural development and entertain similar pretensions to policy influence. Many of the same factors limiting the engagement of regional scientists in public policy discourse apply to scholars in other fields as well. Indeed, a large literature on the research-policy nexus seeks to understand the reasons why findings from academic science are frequently far removed from the policy arena, even in cases where the research is expressly intended to influence public sector decision making (Clark and Majone 1985, Cohen and Lindblom 1979, Eriksson and Sundelius 2005, Haas 2004, Meltzer 1990, Weiss 1979, Wildavsky 1987). Among the many challenges: politics influences the selective funding and use of research; problem complexity and scientific uncertainty prevent researchers from taking the kinds of firm positions that are both comprehensible and compelling to non-specialist decision makers and the public; scholarship can never be wholly objective or autonomous and, therefore, research findings are often viewed as one set of competing interests among many, not the “truths” academics often imagine them to be; research findings may be too slow in coming to influence critical issues about which immediate decisions are needed; and the communication of research findings is inadequate, frequently because it is designed not to influence decision making, but rather to weather all possible challenges from academic peers.

Several years ago I had an opportunity to wrestle with those challenges firsthand. In 2003, I undertook a partial leave from my faculty position at the University of North Carolina to direct the policy, research and strategic planning division in North Carolina’s economic development agency. The purpose of recruiting an academic to the post was to bolster the organization’s own research and planning capability by establishing a permanent line of communication with the scholarly community. Initially, the experiment
was imagined as simple technology transfer from the university to government: it was thought that policy ideas on the scholarly frontier in economic development, as well as new techniques for understanding economic change, evaluating policy options, and predicting policy impacts, would more flow more easily from academe to the leadership and professional planning and policy analysis staff of the agency through a liaison—someone with a legitimate presence on both the university campus and in government. Establishing an institutionalized conduit to the academic research enterprise was perceived as one solution to the research-policy divide. Better *ongoing* communication with academic researchers, with the liaison acting as a kind of broker and translator, was viewed as the foundation of a serious effort to tap scholarly expertise for economic development policy making at the state level.

The aims of this special issue are similar in spirit, though admittedly more modest in design. The issue seeks to invigorate the level of engagement between the regional research and rural policy communities by communicating scholarly expertise in a non-traditional format, one that is more accessible to decision makers than the usual forms of academic publication and dissemination. The objective is to encourage dialog by bringing the good ideas of regional scholars to the attention of policy makers through a series of short, focused issue papers. Each contributor was charged with identifying a problem or issue in their area of expertise, explaining the rationale for a government role to address the issue, and offering recommendations or directions for that government role. The only constraint on contributors’ choice of topics was that the papers address a rural development issue. Authors were encouraged to imagine a testimony before a state legislature, and therefore to present their views concisely and in language comprehensible to non-specialists (never easy tasks for professors!). While the papers cover a range of issues, from arts to the environment, the set is not intended to represent an exhaustive compendium of the challenges facing America’s rural communities. Rather, as a group the papers represent what a set of active regional scholars view as some of the most pressing rural challenges and concerns of the day.

Is more effective communication of scholarly expertise the only way to narrow the research-policy divide? Of course not. Like many scholars-turned-government appointees, I learned many things from donning the shoes of a bureaucrat and attempting to translate the research and policy advice of my discipline into policies, programs and administrative actions. One of those lessons is that more “technology transfer” is clearly needed, and that such transfer will not happen without more creative approaches to conveying research findings and advice. However, I also came to understand that the flow of ideas and insights from the academy to decision making bodies and public agencies would be much richer and sustained if technology transfer also occurred in the other direction, from government to the academy.

The gulf between the types of research findings being produced in much of development scholarship and the kinds of results that can be implemented effectively in the form of legislative or administrative actions is vast indeed. I am convinced that a key reason is that the policy making process itself, and especially the role of implementation as an influence on policy outcomes, are not seriously studied in the fields and sub-disciplines specializing in urban and rural development. Academic specialization means that such topics are instead the province of fields like public administration, political science, and policy analysis, where urban and rural development issues are themselves secondary concerns.

It is hard to imagine that development scholars can significantly influence urban and rural policy choices without a deep understanding of how such policy is made and implemented, from the politics that constrain choice sets to the “government failures” that doom even the most well-intentioned and well-resourced programs. That disciplines that conduct research that seeks to inform public choices must also study (and teach about) the policy process, implementation, and the research-policy nexus itself has been recognized in other applied fields (e.g., Walt 1994), but it is not yet a widely held view in most of the fields allied to regional science. It follows that policy engagement is important to regional scholars not only because it validates their research, but also because it helps reveal the kind of work that needs to be done to translate findings into real actions. Put differently, engagement is best viewed as a learning opportunity for both sides. As regional scholars, we should actively seek to “speak truth to power,” but we should also cultivate opportunities for policy makers to “speak power to truth.” I suspect that is what Professor Shaffer meant when he suggested that regional scientists are spending too much time talking to themselves.

For the public sector, while there is much to be gained by narrowing the research-policy divide, true engagement requires enlightenment on both sides. The fact is that some public agencies are ill-equipped to absorb and utilize scientific findings and policy advice even when they have directly commissioned the research. In many states, the pursuit of efficient gov-
ernment has led to increased out-sourcing of applied research and policy analysis to consulting houses and universities, especially in the economic development arena. While there are clear benefits to using hired experts in some instances, and regional scholars and the institutions they teach in often benefit by becoming go-to sources for such work, near exclusive reliance on contract research and analysis can be counterproductive in a subtle and almost unnoticeable way. Staff unfamiliar with the research process, basic methodologies available, data limitations, and the unique incentives and constraints under which consultants and academics operate have difficulty designing the basic specifications of research projects that can actually inform decision making, program design, and implementation. Likewise, agencies that do not do a basic level of internal research and analysis have difficulty detecting poor or misleading analysis, interpreting the results of valid research, and translating findings into actions. Thus a vicious circle emerges: public agencies with little internal applied research and analysis capability request studies that are prone to produce results of limited utility, which in turn lowers the incentive for the kinds of sustained research-policy engagement that are likely to seriously inform decision making while also enriching regional scholarship.

It is my hope that the papers contained in this special issue will not only inform substantive rural policy debates at the state and local level, but also give decision makers a flavor of the kind of expertise that might be tapped on an ongoing basis through robust engagement with development scholars. For development scholars, it is high time to think carefully about the sources of the research-policy divide itself and how we might, in Professor Shaffer’s words, truly “position ourselves as a policy resource” (1995, p. 224).

References


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Keeping Options Open

Roger Bolton
Williams College - USA

TO: Prof. Roger Bolton
FROM: Hon. Urbania D. Advocate, State Senate

Dear Prof. Bolton:

I’m acutely aware of the chronic stagnation of many rural areas in our state, and even actual sharp declines where old mills have closed. Senators from rural areas keep pressuring me to vote for aid packages financed out of the state budget. From your earlier writings, I would guess that you’re sympathetic.

But, tell me please, why should I care? It’s not a hostile question – I don’t mean to imply my mind is made up. Rather, I’m looking for a clear economic rationale for a policy. I’m convincible—but not convinced, yet. Remember I’m a legislator from a booming urban/suburban district down here in our state’s biggest metro area. The rural senators tell me it’s simply logrolling. Isn’t there a better rationale than that? I’ll have a tough time defending use of my constituents’ tax money for bailouts.

Did I mention I’m getting memos from the Hayek Freedom Center down the street, about letting markets work, and “tough love”? 

TO: Sen. Urbania D. Advocate
FROM: Roger Bolton

Dear Sen. Advocate:

Yes, I’m favorably disposed to some, though not all the proposals your rural colleagues are pushing. Not having space to lay out many details, I’ll describe some general principles that should guide you and then mention a few specifics.

First, “Why should I care?” It’s a valid question. First, think of our state as one community, a conglomeration of localities that nevertheless makes sense as a unit. Not all states are like us—we have a “sense of place” that’s an agglomeration of senses of place in the individual communities. You should take a Burkean view—represent the entire community, not just your own district. Second, following and broadening Herzlinger and Kane (1979), two Harvard Business School scholars, government has four functions: factory, insurance company, bank, and community chest. All four are relevant in an approach to rural stagnation and decline, and the state government should help its local governments perform the functions or perform them directly.

TO: Senator FROM: Bolton.

Well, I already have problems with what you’re saying. The rural senators—they are not being Burkean, believe me! And, that quadripartite vision of government—it doesn’t sound like anything I learned in public finance. The prof had a different lexicon—market failures, public goods, externalities, etc. Is it a special business school thing?

TO: Senator FROM: Bolton.

I can only say I think the rural senators should follow Burke’s model too! As for Herzlinger and Kane, their labels are novel, but the idea is consistent with standard economic theory—as long as actions under each of the four headings are to remedy market failures, provide public goods, and the like, or to ac-

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1 “Parliament is not a congress of ambassadors from different and hostile interests; which interests each must maintain, as an agent and advocate, against other agents and advocates; but parliament is a deliberative assembly of one nation, with one interest, that of the whole; where, not local purposes, not local prejudices, ought to guide, but the general good, resulting from the general reason of the whole.” Burke, 1774, p. 448 (italics in original).

2 Though inspired by Herzlinger and Kane, I’m taking the liberty of broadening their scope. They had only the first three functions; I’ve added “community chest” (I’m sure I’m not original in that, but don’t know any other specific writers who have done it). Also, they were writing about redistributive functions for the Federal government, while I am extending the metaphors to all functions and to our state government.
complish desirable income redistribution in an efficient way. It can be really quite neoclassical in application. The “factory” function produces public goods, the “insurance company” prevents high personal risk from inhibiting efficient decisions on migration or investment, and the “bank” remedies capital market failures. In all those cases the problems are especially acute in areas we’re talking about. The “community chest” idea does require you to think of the distribution of income as a public good, but I urge you to think that way.

To: Bolton  From: Senator.

Here’s something else that bothers me: many of the proposals bruited about in the halls here would build or subsidize expensive new capital—roads, branch plants, industrial shell buildings, tourist trains, tramways, computers for the schools, museums …. My reaction: Why not programs directed more at rural people? I bet it would be cheaper just to give every unemployed guy a check and a voucher good at the local moving company. Don’t we want “people prosperity” instead of “place prosperity”?

To: Senator  From: Bolton.

You are well read. Yes, absolutely, policy is for people. To be sure I understand you, I assume you use “people prosperity policies” to mean ones that benefit persons whether or not they choose to stay in the lagging region, so the benefits are “portable,” think of very general training for unemployed workers, or support of local K-12 education. I assume by “place prosperity policies” you mean help that’s “place bound” and not portable; it’s not available to persons unless they remain in the area; think of a new plant or medical clinic. Place prosperity policies seem, on their face, anti-free choice and inefficient—and inequitable, by being available only to a person who stays in the place, and excluding someone merely because he or she exits.

However, places are collections of people, after all. Some of the collections want assistance that puts them in a situation where staying is a possible response—a genuine option. They want help that they can use where they’ve lived for years, have invested time and resources in building social capital, and where they will benefit from longstanding social networks. Choosing freely to leave a declining place is one thing, being compelled to leave it because there’s really no option—that’s another thing. Are both truly efficient and equitable? These preferences should be important to you partly because every citizen’s preferences are worthy of respect, but more important because it’s also efficient and equitable to help citizens keep their options open.

Keeping people’s options open is especially attractive when their local communities have, already in place, physical and social capital that can be utilized—recycled—after some adjustment. A vital part of the adjustment is education and training to create new human capital that will work with the existing capital … or leave, if a person chooses that option freely. Also vital is support of public services that make staying a realistic option, but that local governments have to struggle to maintain when tax bases are eroding. Free markets have a habit of taking away options, and they did it for my rural neighbors. That’s a necessary part of our system, but ask yourself if occasionally markets go too far. The legislature’s standing by and doing nothing doesn’t help people regain options.

To: Bolton  From: Senator.

Hey, I’m not standing by! I said I’d be willing to just give people plain old green.

To: Senator  From: Bolton.

Just giving cash is more efficient than giving aid with strings attached, as an intermediate microeconomics student can show … IF the recipient has the same options in both cases. Our rural people have lost options, so giving cash outright is often not as efficient as a policy that restores options that are valuable to persons and utilize productive assets for social purposes. Your moving voucher reduces the scope of choice, because compared to another policy it’s good for only one choice—exit. And it might be inefficient if it biases people against staying in a place that still has productive capital.3

To: Bolton  From: Senator.

I like that argument. But surely you don’t suggest we preserve every single “place”! Don’t we have to be selective? But then how do we choose?

To: Senator  From: Bolton.

You’re absolutely right. We have to “triage,” sad and painful as it is (Lapping and Daniels, 1987). We have limited resources, not least the goodwill and understanding in the legislature. If rural people have options, they will choose freely to leave some places—abandon them, to put it bluntly. Some places are not

worth your support: they don’t have the location, or existing capital—even counting social capital—to create meaningful options for their citizens in that location. Others have more potential, and can be productive places in society. Their residents should have the option of staying.

If population is sparse, we need to think about regions. Policymakers need to design regions big enough to support essential consumer and public services, then help businesses, nonprofits, and local governments to provide the services. Each region needs, say, one clinic or hospital, one library, one office of a state agency, one school with new worker training activities, and so forth. But they should not all be in the same town. Distributing them strategically will help support more local communities while making services generally accessible to people all over the region. Cheap public transportation—vans or small buses, most likely—is necessary to ensure such access, and I think state subsidies for that would be one of your most effective actions.

To: Bolton
From: Senator.

That’s the kind of specific advice I’m looking for! How about some more specifics?

To: Senator
From: Bolton.

Sure. Target assistance carefully—don’t give everybody something that only a subset of the population needs. Try to recycle existing capital before spending money on new construction. Look for ways to maintain a sense of cultural identity and historical continuity—they have benefits that people value and are willing to pay something for, often in the form of lower wages that can create a competitive advantage and help recovery. I have in mind support of nonprofits, historic preservation, protection of scenic landscapes. Be vigilant in protecting the environment, which can be a vital asset in persuading people to stay and others to move in. Any rebounding region, even if it starts with massive unemployment, needs a substantial number of newcomers. Protecting the environment is especially important in evaluating new highways, industrial plants, and mass recreation facilities. Finally, keep a long-run perspective, in education for example. Supporting high quality elementary and secondary education is just as important as retraining unemployed workers, because it will help attract newcomers and will increase options over the life course for our young people, so that down the line they really do have a genuine choice between staying and leaving.

References


An Arts-Based State Rural Development Policy

Ann Markusen
University of Minnesota - USA

In American small towns, arts-centered activities are serving as an important growth stimulus for both declining downtowns and the surrounding countryside. By refurbishing older educational, cultural and industrial buildings to host artists and art participants, these towns have increased export base activities, prompted import substitution, and helped to attract and retain artists as residents. Arts and cultural centers often act as anchor tenants in main street revitalization. In some rural settings, artists’ retreats have brought income and spending to nearby communities and helped to showcase their retirement potential. A number of relatively inexpensive policies can be adopted by states to foster artistic development in rural areas.

In rural America today, agricultural and manufacturing job loss is being counterbalanced in part by surprising new sources of growth, especially retiree immigration and arts-related activities. The amenities of small towns and rural areas, including their relatively low cost of living and environmental quality, are a strong draw (Nelson, 1997; Nelson and Beyers, 1998; Vias, 1999). Although artists overall prefer larger urban areas, many prefer the solitude, natural surroundings, and accessible community found in the countryside. A study of the distribution and net migration of artists by discipline in Minnesota over the past decade found that visual artists, writers, and older artists prefer rural locations compared with performing artists, musicians, and younger artists (Markusen and Johnson, 2006). In new work on the artists in rural America, practitioners and researchers are finding that the presence of artists and arts centers that go beyond presenting road shows are helping to stimulate local economies and enhance the quality of life in the region, in turn encouraging people to come and stay (Rosenfeld, 2004; Cuesta, Gillespie and Lillis, 2005; Borrup, 2006; Sheppard, 2006).

Artists—especially those who are trying to make at least some of their income on their work—contribute to the local economy when they sell their work elsewhere, which many do via the internet, by traveling to perform or to juried art fairs, by commissions from elsewhere, or by being represented by an urban gallery, and spend a portion of their incomes locally on housing, food, gasoline and entertainment (Markusen and Schrock, 2006). When they work through or present their work at a local center, they may also expand the ranks of local artists by serving as teachers, mentors, and exemplars. By creating artistic events, they draw in arts consumers from the surrounding areas and tourists from farther afield. The presence of artists in a community, whether as residents or retreat guests, helps to make an area more attractive to other residents and retirees.

As with casinos and churches, some of this local spending on arts and culture can be viewed as import substitution: people who buy artwork or spend discretionary income on tickets may be forgoing purchases of products from elsewhere. Shifts in consumer spending towards more local context, not necessarily in the same products or services, can be conceptualized as a consumption based model of rural development, an alternative to the export base preoccupation of most economists (Markusen, 2006). In addition, since arts and cultural activities are quite labor-intensive, spending associated with small town and rural arts activities has a large local multiplier effect compared with equal spending for capital-intensive projects.

The creation of an arts-dedicated space—cultural centers, artists’ retreats, multi-media theaters, artists’ live/work or studio buildings—can magnify the economic impact of artists’ presence in an area, the number of tourists brought to the center, the quality of arts development and the draw for retirees. In many small
towns, local governments have helped to raise funds for arts centers through bonding, giving vacant city-owned buildings to organizers, providing infrastructure, combining city economic development or tourism staffing with arts center management, helping to develop artists’ live/work spaces, or even by deciding to own and run arts centers themselves. Examples abound: the rehabilitation of an old, shuttered theater in town (e.g. Grand Forks, North Dakota and Faribault, Minnesota); the refurbishing of old churches or commercial buildings as arts centers (Grand Marais, Northfield and New York Mills, Minnesota); and the transformation of old industrial or commercial buildings into artists live/work space (Paducah, Kentucky; Fergus Falls, Minnesota) are examples of combinations of these strategies at the local level. Some of these cases are documented in detail in Markusen and Johnson (2006).

How can states foster artist-centered rural activity? First, states should assess their current arts funding apparatus for its urban/rural balance. State arts boards that offer funding to individual artists and arts organizations, from both state and national sources, should adopt a regionally decentralized structure if they do not already have one. Nine states currently have decentralized funding structures. Of these, Minnesota’s is the second oldest. Its eleven Regional Arts Councils were created in tandem with the State Arts Board in 1976. The Councils have their own line in the state budget (rather than having to apply to the State Board each year) and receive a relatively large share of the state arts budget, currently 28 percent, allocated by a formula based on population, land mass and prior year funding. (Rural artists and larger arts organizations can also apply for central fund allocations.) Each regional arts council, a non-profit, has a Board of Governors who determines regional needs and solicits grantees broadly, dispersing funding across the region (Bye, 2006).

Critics of funding decentralization argue that the better artists are disproportionately in the larger cities, but artists often report feeling that they must move to major metro areas to win funding. If better opportunities and cultural facilities are present in rural communities, emerging artists may stay and do better in funding competitions (Booker, 2005). State arts boards might stress the importance of dedicated artistic space in rural and small town arts funding, rather than just presentation of touring companies or tiny grants to individual artists.

Second, states can think more creatively about rural economic development programs, now dominated by expensive and often ineffective business incentives that are biased towards private sector capital-intensive projects (Markusen forthcoming). As states and localities increasingly merge their economic and workforce development operations, they are beginning to target key occupations as well as industries in their programming (Markusen, 2004). Artists, because of their high rates of self-employment, rural/urban migration, and entrepreneurialism, are good occupational targeting candidates. Rural and small town economic development projects such as artists’ centers can help artists learn the business side of their work by ongoing exposure to each other and to entrepreneurial programs in a dedicated space (Markusen and Johnson, 2006).

Third, state economic development programs can encourage small town or rural development of arts and cultural space by offering to match local capital or initial operating commitments. States should also re-evaluate their capital bonding practices which currently heavily favor large, urban arts projects over smaller and decentralized ones. Smaller-scale public or non-profit capital projects, such as the artistic spaces recommended here, often fall below the minimum scale for state bonding support. State economic development agencies could package together a number of smaller theater renovations, community arts centers, and other cultural spaces through special programming as one way around this problem, or they could establish a matching fund.

In all cases, artists and arts centers receiving any form of state arts or economic development support should be asked to give back to the community by teaching, offering workshops, mentoring other artists and amateurs, and volunteering time or space for community events such as art fairs, artistic performances, and other non-arts activities. They should be expected to actively participate in strategizing about community and regional development. Minnesota’s New York Mills Regional Cultural Center was created at the initiative of a local artist who built the support for it and convinced the City Council to fund it, and its current director serves as the tourism director for the town as well.

In summary, nurturing arts and cultural activities and programming can yield multiple benefits for rural communities. They make communities more livable, retaining existing residents and attracting new ones, especially retirees. They attract artists who are footloose and who export their work, bringing in income to the community. Spending by tourists and locals on arts and cultural events and products may keep more income circulating in the local economy. Artistic spaces are playing a role in revitalizing older downtowns. Arts and cultural activities have payoffs beyond the strictly economic as well—in civic participa-
tion, aesthetic and entertainment pleasure, and solving community problems.

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Introduction

The state role in economic development policy has increased as the federal government has devolved selected programs to balance growth and incomes among different parts of the country. Rapid growth in coastal states and the suburban areas around many cities, and stagnation or decline in areas that have remained rural has intensified economic development debate. Within the broad spectrum of economic development policy, significant resources are focused on state industrial recruitment through tax abatements. This article uses the Michigan experience to illustrate how current application of tax abatements may increase geographic income inequality, and that some adjustment in the policy would be needed if policymakers want to rectify the unequal distribution of tax expenditure. We also argue that localities have few incentives to reject or limit, which can lead to overuse of the tool. Relatively straightforward countervailing measures such as a cap on per capita use of abatements, together with payments to localities that do not use their quota of abatements, could improve the effectiveness of overall state economic development policy by increasing the level of local public debate about the use of abatements and making funds available for alternatives to tax abatements.

A Brief History of Tax Abatements as an Economic Development Policy

Tax abatements have their roots in the 1930s as southern states began to look for ways to diversify their economies. Cheap land, cheap labor, and an unorganized workforce made the southern region attractive to northern manufacturing firms. Tax abatements served as the inducement to offset costs of making the move. Encouraged by the success of early leaders, other states emulated the policy; now most states offer some kind of abatement program. The policy also cascaded from states to localities.

Initially focused on manufacturing, use of abatements expanded to other types of economic activity, most notably data processing, warehousing/distribution, and sports facilities. It also extended to expansion, and, to a lesser extent, retention, of existing business. But recruitment of manufacturing is still a major focus of abatements.

Abatement Pros and Cons

Economists are overwhelmingly against tax abatements as incentives for investment. In the mid 1990s, over 100 Midwestern economists signed a petition asking states to abolish their tax abatement-based recruitment programs (Reed, 1996). A decade later, industrial location incentives are in full force despite recent legal challenges in federal court (Mazerov, 2005). Why do most economists frown on the abatements, and why do incentives continue to be popular? Clearly there must be compelling arguments on both sides. We start with the main arguments against.

High Costs. Because so many governments are trying to recruit a very limited number of “footloose” firms, managers are able to extract big concessions in their location decisions. For example, Kentucky once offered $350,000 in aids per job for a 400 employee steel mill (LeRoy, 1997). Gabe and Kraybill (2002) found that firms receiving incentives often did not live up to their intentions.

Increasing the Equity and Efficiency of Tax Abatement Programs

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1 This paragraph summarizes a history presented in Ross and Friedman, 1990.
up to job creation promises, increasing final costs per job well beyond announced costs. Costs may also be imposed as owners game the system to get incentives for investments they would anyway make (Wolcott, 1992; Oechssler, 1994). Furthermore, manufacturing is subject to a profit cycle during which the optimal manufacturing location may shift (Markusen, 1985), so recruited firms may move to lower labor cost sites (e.g., offshore) when the abatements expire. Communities may recruit a firm thinking it will remain for twenty years and compute their willingness to pay accordingly; with a profit-cycle driven shorter time span, costs per year of benefit go up.

Zero Sum Game. Abatements merely move economic activity from one place to another without affecting growth at the national scale.

Market Distortion. Sectors favored by abatement programs grow at the expense of other sectors that may be more efficient given local market conditions. The result is market inefficiencies and lower overall productivity of the local economy.

So why do we still engage in industrial recruitment? Some of the main arguments:

Time Preferences. Industrial recruitment seems to offer some chance of jump-starting a stalled economy. Prior work (Loveridge and Loy, 1998, Loveridge, Bokemeier, and Kakela, 2005) has shown that people tend to prefer their economic development now rather than later, even if it costs jobs in the not-too-distant future. This time preference effect is intensified at the level of decision-makers, as officials are anxious to publicly display results before the next budget cycle (for agencies) or election, even when the costs of the program exceed the benefits (Dewar, 1998). Economic development choices such as training or investments in scientific research that will pay off further in the future have little value for officials dealing with political realities. Academics have a tendency to criticize officials for the scale of abatements, but research by Loveridge et al. (op. cit.) indicates officials are reflecting the preferences of the electorate.

Economic Diversification. Recruitment offers a way to seed industries that may not be present or ever arise in the local economy. The problem comes with deciding what qualifies as an infant industry. For example, LeRoy (2004) documents a Minnesota case where a $275,000 tax increment financing subsidy was approved for a firm that was creating one (possibly seasonal) minimum wage fast-food restaurant job.²

Additional Benefits. We can go beyond the main arguments for industrial recruitment when policies targeting rural and economically distressed areas are considered. First, stabilizing small towns or core cities can make more complete use of existing infrastructure. Directing growth towards areas with underutilized infrastructure reduces the need to develop costly new suburban infrastructure and reduces pressure on the natural environment. This argument is particularly relevant where large facilities are vacant due to manufacturing, military base, or prison closings, but may also apply to roads, sewers, and schools. Second, many rural and central city areas have high poverty rates, so business subsidies in these areas may be justifiable on equity grounds.

The Michigan Experience

The Michigan experience with abatements is instructive. Initially against incentives, Governor Engler in 1995 inaugurated the Michigan Economic Growth Authority (MEGA), a tax abatement program aimed at attracting business investments (Reed, 1996) that would otherwise not occur (CRC 2001).³ The only geographic targeting was a lower eligibility threshold in federally designated distressed zones. By the end of 2003 there were 173 active MEGAs that benefited 36 of 83 Michigan counties (see Figure 1). A total of $1.4B in abatements was granted (about $145 per capita).

Michigan’s national ranking in Site Selection’s major business investment database rose sharply during the same period. It increased from 22nd in 1994 to 7th place in 1995 and 6th in 1996 (Nizalov and Loveridge, 2005). From 1997 through 2000, Michigan took first place, and remained in the top five from 2001 through 2003⁴ (op. cit.). This ranking is based on the number of projects meeting the magazine’s job creation or dollar investment thresholds. While the association does not prove causation, implementation of the MEGA policy clearly coincided with increases in the type of investments that count in the magazine’s contest. Even if one accepts a priori the strong assumption that MEGA caused all the investments, it should be noted that prosperity did not rise: Michigan’s income per capita relative to the US declined over the same period, reversing an earlier period of modest improvement.⁵

² A kind of indirect abatement where property taxes the business pays are diverted from the general fund to pay off public debt incurred to finance improvements on that tax payer’s property. In effect, the owner pays taxes instead of taking out a loan, thereby avoiding the loan payments.

³ “… applicants must certify that the project would not occur absent the MEGA grant.” (CRC 2001, p. 20).

⁴ The ranking does not account for population. The US Census ranks Michigan as the eighth largest in population.

⁵ Author calculations based on Bureau of Economic Analysis data. From 1984 to 1988, the Michigan/US per capita income ratio hovered between .97 and .98; from 1989 to 1994 it gradually increased to 1.02, after MEGA was implemented, it declined from 1.01 in 1995 to .96 in 2002.
The MEGAs were concentrated mainly in metro areas, with large stretches of Michigan’s rural areas, including Michigan’s highest poverty rural region, the northeastern part of the lower peninsula, failing to make any use of the policy tool (see Figure 1). Table 1 summarizes the rural-urban MEGA divide in per capita terms. Out of total of 173 MEGA, 153 (88 percent) are located in metro counties. The amount of tax credit per capita was $168 in metro counties, but only about $40 in non-metro counties. The MEGA program was used by 96 percent of metro counties but only by 21 percent of non-metro counties. Because the metro awards also tended to be larger than non-metro awards, 95 percent of the tax credits were awarded in metro counties. Comparing the distribution of the tax credits per capita (Figure 1), we can see that the difference in use of abatements between rural and metropolitan counties shrinks if there is at least one MEGA in a county. Thus much, but not all, of the bias in the policy application exists along the with/without lines, not with how much is granted. The metro bias in MEGA awards may have widened the income gap between metro and non-metro residents. At the beginning of the MEGA program, personal income per capita in non-metro areas was 73 percent of metro per capita income, but by 2003 the gap had increased to 71 percent. Nationally, metro per capita income grew by 1.3 percent more quickly than non-metro income, but in Michigan, the gap in growth between non-metro and metro areas was 3 percent.\(^7\)

In 2003, the legislature overwhelmingly voted to re-authorize MEGA. One modification to the 1994 law was lower employment eligibility threshold for up to five “rural” businesses per year. Significant impact on rural areas will take a long time at the rate of five (smaller) deals per year.\(^8\) In practice, even these small threshold awards seem to be biased towards higher population areas. In 2004 and 2005 five of the six “rural” MEGAs went to counties the USDA classifies as metropolitan adjacent.

Even within the metropolitan areas the policy tends to benefit more suburban communities. For example, Detroit Primary Metropolitan Statistical Area (PMSA), which consists of six counties, had 74 active MEGAs in 2003. Only four of them (5.4 percent) went to the distressed central city area (cities of Detroit, Highland Park and Hamtramack in Wayne County). The central city area received about $34.6M in tax credits - $180 per capita (only 4 percent of the total granted to Detroit PMSA). Meanwhile, suburban Oakland County, Michigan’s wealthiest county\(^9\), had one of the state’s highest per capita MEGA use, accounting for nearly 29 percent of total credits awarded statewide. On balance, the MEGA program seems to be associated with an increase in state-sponsored deal making, but most of the activity seems to occur in well-off suburban areas in a limited number of counties. Because sprawl-type growth patterns in suburban areas frequently require additional state-subsidized infrastructure investments, the state may pay twice for growth in these regions and also increase the long-term costs of government services as it is forced to maintain infrastructure in depopulating rural towns and central cities (Hemlich and Anderson, 2001). There is some evidence that the geographic pattern of abatements observed in Michigan is not unique (Schweke, 2004).

\(^6\) Identified as those with Beale Codes 0-3.

\(^7\) Based on Bureau of Economic Analysis income data, 1995-2003.

\(^8\) “Rural” was defined as counties with less than 75,000 people, which includes 59 of Michigan’s 83 counties.

\(^9\) According to the US Census.
Table 1. MEGA awards in metropolitan and non-metropolitan Michigan, 1995-2003 (data: Michigan Economic Development Corporation)

<table>
<thead>
<tr>
<th></th>
<th>Number of MEGA</th>
<th>MEGA per 100,000 county residents</th>
<th>Total Amount of Tax Credit</th>
<th>Tax Credit Per Capita</th>
<th>Counties with MEGA / all counties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total:</td>
<td>173</td>
<td>1.72</td>
<td>$1,466M</td>
<td>$145</td>
<td>36/83=43%</td>
</tr>
<tr>
<td>Metro:</td>
<td>153</td>
<td>1.85</td>
<td>$1,393M</td>
<td>$168</td>
<td>24/25=96%</td>
</tr>
<tr>
<td>Non-Metro:</td>
<td>20</td>
<td>1.11</td>
<td>$73M</td>
<td>$40</td>
<td>12/58=21%</td>
</tr>
</tbody>
</table>

**Recommendations for Change**

The example shows that using abatements to attract investment may produce perverse outcomes: poor communities subsidizing the rich and increasing overall costs of government. But with increasing global competition, industrial incentives are probably here to stay. Rather than eliminating this economic development option, a more reasoned and politically feasible approach might be to increase the competition for abatements and to put into place methods to assure a more equitable geographic distribution of tax credits. Schweke (2004) proposes a) recession-triggered statewide job creation tax credits or b) geographically targeted wage subsidies for companies hiring unemployed workers as an alternative to tax abatements. LeRoy (2004) suggests “sunshine” as a way of limiting tax abatements. He provides a number of examples of state policies to increase awareness of the level of tax abatements and other incentives given to relocating companies. His suggestion is that reporting of subsidies will cause individuals to object to egregious use of incentives, thereby curtailing officials’ willingness to apply them. While LeRoy’s approaches have some merit, our observation is that the states from which he draws his examples do not seem to have reduced their overall levels of incentives; indeed, the $275K tax increment financing story he documents from Minnesota was fully subject to “sunshine” through a public website. So sunshine is good but not enough. Communities must feel there is some cost of using abatements, even if state government is paying.

Communities could be made to feel some cost if a per capita cap on the amount of tax credits awarded within a county per five-year reauthorization cycle were set. For example, as shown in Table 1, Michigan awarded tax credits of $145 per person between 1995 and 2003. If we assume the same rate of tax expenditure in future years, this works out to about $16 per person per year, or $80 per person for five years. Tax credits could be capped at $80 per person during each five year reauthorization cycle. So a county with 100,000 people would have a cap of $8M in tax credits to be used during the five years. So an $8 million tax abatement in year 1 of the cycle would mean that no new abatements could be awarded in that county. If existing local businesses know that abatements for a new company may cost them tax credits on their future expansion, they will have incentives to closely examine any local deals. This, together with LeRoy’s “sunshine” policies, would establish a countervailing pressure to offset power that is currently concentrated in the hands of footloose businesses.

Motivation to critically scrutinize abatements could be further increased if the State were to award localities funds for alternative economic development programs (e.g. basic infrastructure development and repair, business counseling, revolving loan funds, worker training, tourism promotion, or value-added agriculture) based on the number of unused tax credits at the end of the abatement’s authorization cycle. To continue our example, suppose the county with a population of 100,000 were to award only $4M in tax credits during the five year reauthorization cycle. A portion (say 50 percent) the remaining tax credits could be given to the county to support entrepreneurial training, workforce development, revolving loan funds, amenity development, or a temporary county-wide reduction in state business taxes. Groups likely to benefit from these alternative economic development programs would then have an interest in serving as watchdogs of local dealmaking. A two week comment period followed by a public vote by the local elected body would assure open debate without unduly delaying the firm’s investment decision. Such a program would help local groups internalize the real tradeoffs involved with tax abatements without shutting the door on this important but controversial economic development tool. Alternatively, one could decouple the payments from the per capita cap and simply make an allocation to areas that don’t make use of abatements. This is justifiable on pure equity grounds, and could still help local areas resist bad deals, increasing the efficiency of state tax incentives.

Geographic targeting of economically distressed and rural and core urban areas might further increase
efficiency of tax abatement policies, as long as the number of eligible zones is sufficiently restrained. For example, areas with poverty rates in the top ten percent could be made eligible for a slightly larger per person allocation, while wealthy areas where sprawl is an issue could receive proportionately less. In highly urbanized areas, city boundaries might be used to determine eligible poverty rates rather than county boundaries. Borders could be used to increase regional collaboration in economic development. For example, localities could be allowed to give a portion their allocation of state tax abatements to a bordering community in exchange for a portion of the resulting tax base. This might ultimately serve to reduce the multiplicity of local industrial recruitment offices present in the current system as neighboring communities with common goals discover the benefits of working together rather than competing.

Implementing the suggested per capita caps and refunding a portion of the unused abatement allocation to the locality are not without some potential costs, and these should be discussed. First, some will claim that it will impose excess processing costs on the system. The information management abilities of both firms and government have increased substantially since the 1930s, so implementing the changes should not be beyond their capacities. If government could track a temporary tax abatement in the 1930s, it can probably track a cap on abatements now! Second, the policy will inevitably be blamed for lost prospects. These costs must be balanced against the cost of providing subsidies for low quality jobs, for firms that would locate within the area without the abatements, or for firms whose other attributes (pollution, reputation for socially unacceptable management practices) make them undesirable to the local community.

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Examples and Principles of State-Level Rural Environmental Initiatives

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Many of the biggest environmental policies are federal: the Clean Air Act, the Clean Water Act, and so forth. Yet those federal laws leave important niches to be filled by state authorities; there are areas of environmental policy in which state governments can and should take the lead. Some state policy initiatives are of particular relevance to rural areas. However, two questions must be answered before attempts are made to formulate any such state policy: which environmental problems are “rural?” and “what role should state government play?”

I provide recommendations for state policy related to water pollution and species conservation which employ pollution standards, economic incentives, liability policy enforcement, and measures to improve the technical capacity of state environmental agencies. These problems are likely to be important in many states, and thinking through them provides an opportunity to showcase some general principles of state environmental policy formation.

Which environmental problems are rural?

Many environmental policies have effects on both urban and rural areas. However, we can think of environmental problems as “rural” when the benefits and/or costs of dealing with those problems are borne disproportionately by residents of non-urban areas. Each state is likely to face an idiosyncratic set of challenges to its rural environment, depending on its geographical, ecological, and economic characteristics; one state might have a serious problem with air pollution from large livestock confinement facilities, a second might struggle with the threat posed to its fisheries by pollution of coastal waters, and a third could be fighting to maintain the aesthetic integrity of its rural landscape. Amid this diversity, water pollution and species conservation are common and important components of the sets of rural environmental challenges faced by states across the country. If legislators understand why these two problems are important to rural areas, they may also be able to identify other problems that might be especially important in their own state.

The damages associated with water pollution, and thus the benefits of cleaning it up, accrue most importantly to rural communities. Some of that damage is in the form of lost recreational benefits. Polluted rivers and lakes have diminished value for swimming, boating, and fishing; that loss may be felt deeply in rural areas that have a natural comparative advantage in outdoor recreation. More serious damage, however, comes in the form of drinking-water contamination. Public water systems in rural areas, when they exist, tend to be very small, and many rural areas rely heavily on wells for drinking water. In both cases, the cost of eliminating contaminants from drinking-water sources is very high compared to the costs faced by those (largely urban) water systems that are large enough to exploit economies of scale in water purification. Thus, groundwater and surface-water pollution in rural areas often presents residents with a painful choice between consuming water with unacceptably high levels of contaminants and paying very high bills to clean it up. While the sources of water pollution may or may not be rural, some of the most harmful effects are.

Conversely, the source of species and habitat endangerment is usually human activities in rural areas or at the urban fringe, while the harm caused by such destruction accrues much more broadly. While
rural areas do gain some benefits from ecosystem services and interaction with wildlife, we have federal law protecting endangered species because people across the country value the existence of diverse plants and animals, even if they will never interact with those plants and animals directly. Conservation is a rural environmental problem largely because effective conservation policy must entail changes in human behavior toward rural lands and wildlife. Most urban areas have already developed much of their natural lands and driven out most of the species that can not live in harmony with densely settled humans; there are few opportunities for conservation there. At the other end of the spectrum, there is no threat from humanity to ecosystems and species in unsettled areas that are devoid of economic activity. The greatest danger, and thus the greatest conservation potential, is found in lands that are on the margin. Activities such as development, logging, grazing, mining, and farming all pose threats to natural lands and their non-human inhabitants, either by stressing the ecosystems or by converting lands from natural status altogether. Thus the costs of conservation are often the opportunity costs associated with limiting or restructuring those human behaviors in rural or ex-urban areas.

When should the state get involved?

When we identify environmental problems that call for government intervention, it can be difficult to decide which level of government (federal, state, or local) is best suited for the job. “Environmental federalism” has been the subject of extensive study by environmental economists. Several principles emerge from that body of work (see Oates, 2001, for a review.) First, we want an environmental problem to be handled by a governmental body such that all (or at least most) of the costs and benefits of any policy will be borne within that government’s jurisdiction. If, for example, a town decides how much air pollution a local power plant should be allowed to emit, that city government may ignore the costs borne by downwind communities and allow more pollution than is best for society at large.

According to this principle, and given the limited transport of pollutants through groundwater, the state is probably the right level at which to form policy about pollution of many groundwater supplies (though there will clearly be complications when very large aquifers overlap state borders.) Many of the costs and benefits of surface-water pollution are likely to fall within state boundaries as well. It is true that some surface-water contamination has interstate effects, but rarely are those effects national in scope. Hence, the appropriate governance of water quality is likely to lie in states, parts of states (like Southern California), and regional coalitions of states that can negotiate to ensure that policy in this area does not neglect cross-boundary effects (e.g., the Chesapeake Bay Program and the Great Lakes Regional Collaboration). The costs of conservation are likely to lie largely within a given state, but the benefits surely spill over to the rest of the country. Any state-level conservation initiatives might, on their own, tend to under-invest in conservation activities. This concern is mitigated, however, by the fact that any state-level policy must conform to the federal Endangered Species Act (ESA). The ESA may help to prevent extreme levels of under-conservation on the part of the states (though the ESA is too blunt a law to ensure anything like “optimal” conservation).

A second principle of environmental federalism predicts when it is actually better, and not just acceptable, to have state-level policy instead of federal (or local rather than state). This principle points out that it is best to push policy making into more local hands when idiosyncratic local information and preferences are important for designing and implementing good policy. States have long argued that this is true of conservation policy, and they may well be correct. State officials may be in a better position to understand how local economic agents will respond to the restrictions or incentives that may make up such a policy. They may also have better information about the ecosystems and species in the state, and exactly what sorts of changes are necessary to protect them. This idiosyncratic knowledge may enable state initiatives to reduce the cost to the state’s rural communities of providing conservation.

A similar argument probably holds for water pollution. At a time when most water pollution comes from nonpoint sources (farms and suburban lawns rather than factory pipes), states may have better access to detailed information about pollution sources. State officials may better understand what policies are likely to lower pollution levels and yet be enforceable. They may also have a better sense of what the true benefits of pollution reduction in the state really are. State-level initiatives may yield more appropriate levels of cleanup for their rural residents than uniform federal mandates, and may accomplish that cleanup at lower total cost.

A third principle is sometimes invoked in arguments that prefer regulation to be housed at large jurisdictions rather than small: concern that localities might “race to the bottom.” Advocates of this
viewpoint worry that cities, counties, and even states might reduce levels of environmental quality to sub-optimal levels because they cannot resist the impulse to compete with one another for economic activity like housing and commercial development, mining, and industry that might be repelled by environmental regulation. However, empirical studies have not found strong evidence to support this concern, though some (e.g. Millimet, 2003) find evidence that states have engaged in a “race to the top.”

Policy directions for state legislatures

State legislatures can launch policy initiatives by passing new legislation. In many areas, however, the legislature needs mainly to target increased funding to the relevant state agencies (often the state environmental protection agencies or departments of natural resources) to make sure that adequate resources are available to carry out environmental-policy mandates.

To mitigate the damage done to rural communities by water pollution, state legislatures can certainly support policies that reduce water pollution levels themselves. The federal EPA is supporting a long-stagnant mandate set forth in the Clean Water Act for states to set and enforce total maximum daily loads (TMDL) of pollutants into surface waters within their boundaries. State agencies have a great opportunity to choose pollution-reduction goals and the policies they will use to achieve them, but it is a task of staggering scale and complexity; state legislatures should provide the relevant agencies with adequate funding to do this right. State governments can also protect the water supplies that are crucial to rural areas by making sure that at least one state agency takes seriously its role as state trustee. Under CERCLA and the Oil Pollution Act, trustee agencies are supposed to hold responsible parties liable for natural resource damages associated with spills of oil and hazardous chemicals. By enforcing those liability laws, state trustees can provide economic agents with appropriate incentives to avoid accidental releases that contaminate groundwater supplies (Ando and Polasub, 2006).

Other state initiatives can reduce the harm done to rural residents by water pollution by taking steps to lower the costs of abating drinking water contaminants. At a simple level, legislatures can create programs that provide technical support for small water systems and well owners. More sophisticated policies might aim to encourage restructuring of settlement patterns and, consequently, drinking-water supply infrastructure. Incentives could be provided to developers and municipalities to ensure that fewer residents depend on wells, and that new drinking water capacity is provided by enlarging existing systems rather than spawning new systems that are too small to be efficient.

In the conservation arena, states can reduce the cost to their rural communities of providing necessary conservation benefits by developing proactive conservation programs. It is likely to be cheaper to avoid crises with endangered species through planned growth and conservation reserve initiatives than to have to impose emergency restrictions on economic activity after a species or ecosystem has been seriously imperiled (Shogren et al., 1999). Agricultural states can refocus state Conservation Reserve Enhancement Programs (CREP) to enhance wildlife prosperity in farming areas. Legislatures can also provide funds to improve the analytical capabilities of state conservation agencies, enabling conservation reserves to be planned and managed with state-of-the-art expertise.

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Comprehensive Planning for Sustainable Rural Development

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Concern among state legislators about rural development and rural land use is not new. In many states, agriculture remains an important feature of the economic, cultural, and political landscape. As rural incomes, populations, and prosperity have declined, states have adopted a variety of policies in response. Rural land and development policies in most states, however, are often more symbolic than influential, poorly integrated, and grossly misguided (Audirac, 1997). For rural areas, very few states mandate or facilitate rural comprehensive planning, often due to opposition from rural legislators. Farmlands (cropland and grazing land) constitute the largest share of land use by acreage in the country and have an even higher share in the rural areas (USDA, 2000). Although a relatively smaller and decreasing part of the overall economy, farmland uses employ 21 percent of the nation’s workforce (including processing, wholesale and retail trade of farming goods) and about 7 percent of nation’s workforce in production (2002 numbers). Therefore, focusing planning on urban land use alone is unfortunate, because rural areas, perhaps even more than their urban counterparts, have much to gain from comprehensive planning.

In today’s decentralized economy, urban and rural economies are no longer dichotomous. Metropolitan regions are growing faster in land area than in their population and put immense pressure on exurban, mostly rural land for development (Diamond et. al. 1996). At the same time, remote rural areas face population loss due to more efficient, mechanized tools of farming and continued growth in urban areas as a result of agglomeration economies. Spatial variations in regional land use patterns are becoming more continuous. However, this article uses a broader urban-rural distinction characterized by different land uses and discusses policy alternatives for states to achieve a more sustainable approach to land use. We also discuss the basic economic rationale for more focused land use policy in rural areas.

The existing array of state programs that address rural land use and development is long and varied. Popular programs include tax relief (such as farm tax assessment programs), agricultural districts, right-to-farm laws, agricultural zoning, purchase and transfer of development rights, small town economic development programs, and urban growth management. In general, these programs have three primary objectives: farmland preservation, urban growth containment, and small town economic development. While each of these various programs has its technical merits, the objectives of each are also based on significant fallacies regarding conservation versus preservation, the threat of urban growth, and the threat of urban growth, and the most effective approaches to economic development.

Farmland Should be Conserved, Not Preserved

Though farmland conservation and preservation are often used interchangeably, there is a subtle distinction. To preserve means to maintain in a given state; to conserve is to use parsimoniously. For several reasons, the latter is a better foundation for farmland policy. First, there is no compelling evidence of farmland shortage. Commodity prices are low and falling and farmland values are doing the same. The causes of these trends are obvious: food constitutes a falling share of rising incomes and farmland productivity continues to rise (Browne et. al., 1992). These trends suggest a need for less, not more, farmland. Second, the opportunity cost of farmland is high. Market signals suggest that farmland has considerably higher value in urban use, if such were demanded.

The conservation argument is based on two caveats to the economic rationale. There are good reasons...
to believe that land price signals are distorted. Land may be overvalued in urban use because the federal government subsidizes home ownership and highway construction, while local governments under price urban infrastructure and provide tax concessions for commercial and industrial development (Knaap et. al. 2000). Additionally, these distortions in relative prices between farm and urban land are small compared to the distortions in relative prices between farmland and other competing uses that are either hard to quantify or provide little incentive to private uses. Farmland, for example, is the greatest consumer of wetlands that provide invaluable environmental services yet command almost nothing in the marketplace. Farmland also consumes vast acres of forests, prairies, floodplains, and other natural habitats that provide important environmental services but little return to land owners (Feather et. al.). Further, farmlands generate positive externalities such as scenic views, biodiversity, cultural heritage and diversified local economies that are harder to quantify. Rising farmland productivity and opportunity costs suggest that we should preserve the option to farm while at the same time encouraging land owners to provide environmental services. Programs like the U.S. Department of Agriculture’s Conservation Reserve Program (CRP) compensate farmers for providing environmental services. Similar programs could be created for providing habitats, carbon sequestrations and scenic open spaces. There is no need to tie such programs directly to farming.

Finally, many farmland preservation programs focus almost exclusively on the urban fringe and thus have damaging perverse effects. Programs that transfer development rights, for example, often preserve small scattered parcels in the urban fringe. These parcels provide urban residents with open space, but because of their size and proximity to urban uses, have limited potential for agricultural use. Exclusive farm use zoning regulations typically prevent subdivision below a minimum lot size. In the urban fringe, this practice often results in urban residents consuming even more land for farnettes.

**Urban Development is Not the Greatest Threat to Rural Well Being**

Though stories about farmland depletion appear daily in the popular press, the threat to rural health of urban growth is greatly exaggerated. Urban uses constitute around 5 percent of all land in the United States. In Illinois, for example, between 1970 and 1990 the Chicago metropolitan area grew only 4 percent in population while its land area increased 46 percent (Diamond et. al. 1996). Similarly disparate rates of growth occurred in Rockford, Peoria, Champaign-Urbana, Bloomington-Normal, and Springfield. Over this same period, acres in corn and soybeans—the state’s dominant agricultural products—grew slightly while productivity grew rapidly. In short, despite the rapid urban expansion, the capacity to produce agricultural products has risen, not declined.

Many factors threaten rural well being more than urban growth. The relative decline of farm prices, for example, has eroded farm profitability and lead to bankruptcy. Soil erosion degrades soil productivity and escalates the need for chemical additives. Nutrient and pesticide runoff degrades waterways and groundwater aquifers. Declining rural populations has closed rural schools, hospitals, and other public facilities. In short, eroding farm profitability, soil erosion, environmental degradation, and loss of public services represent far greater threats to rural health than urban growth.

**Rural Sustainability and Revitalization Require a Comprehensive Approach**

Comprehensive plans have become common for urban areas because urban development is complex, development decisions are interrelated, and the development process could be improved through careful analysis, foresight, and planning. These conditions now hold in rural areas, too. Successful rural development requires that agricultural infrastructure and property markets facilitate farming at its most efficient scale; that safeguards are in place to protect the integrity of environmental systems; and that critical education, health care, and other social services remain financially viable. Equally important is system interdependence. Large scale farms, for example, pose greater threats to environmental systems, require more non-resident, high skilled labor, and place greater demands on social service and health care systems.

Rural communities perhaps do not control their own destinies, but states can do much to enable communities to help themselves. Almost every state is developing powerful geographic information systems with broad geographical and physical coverage. Such systems now enable rural communities to display land use at the county level, understand critical hydrological and geological systems, analyze trends in population and trade flows, and identify opportunities for new infrastructure, tourist-related development, or environmental investments (Herrmann, et. al., 1999; Matthews et. al. 1999). Such growing technological
capacity has vastly increased the potential impact of rural comprehensive plans.

**Summary**

States now have an unprecedented opportunity to help rural communities help themselves by providing rural communities with data and technology, offering technical assistance, and encouraging them to develop comprehensive plans. The process starts with the recognition that rural comprehensive planning need not simply imply containing urban growth, preserving unprofitable farming activity, or economic development in isolated small towns.

**References**


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Although all land use is local, few problems require the more urgent attention of state legislators than that of land use. How land is used has important economic, social and environmental consequences that may affect all residents of a state. States must take on more active roles as coordinators and conveners in the arena of land use planning if they are to address the challenges of growth, development and environmental protection in urban and rural areas. In so doing, they have to tread cautiously and thoughtfully given the historically entrenched bias towards local control of land use decisions and the potential for inter-governmental distrust and animosity (Nicholas 1999).

The Issue

Over the next 25 years, close to 60 million new housing units will need to be constructed to meet the housing demands of the 94 million new residents forecast to live in the United States by then (Nelson 2004). Along with a larger population, growing incomes and societal preferences for smaller households will reinforce the higher demand for new homes (Katz 2002), leading to more land conversion for development purposes.

Where those new homes are constructed will have important economic, social and environmental consequences (Marshall and Shortle 2005; Deller 2005; Stedman 2005; and Goetz 2005). Each state must recognize that this new housing and residential development will help determine the future quality of life of its residents, its economic growth prospects, and its attractiveness to domestic migrants and foreign immigrants. State and local governments across the U.S. must weigh carefully the benefits and costs of alternative land use patterns associated with residential construction because they are largely irreversible.

Given the anticipated increase in demand for homes, and the fact that housing is already scarce in certain areas, the question of housing affordability becomes pressing, in some states more so than in others. Affordability refers to the cost of housing in a state relative to the income of the state’s residents. It is an important leverage point for state social and economic policy. One way of keeping the cost of land and housing low is to push development into less densely-settled rural areas, often on the urban fringe. However, that increases environmental or ecological impacts. Cho et al. (2006, p.299) summarize the dilemma as follows: “While the trend toward lower housing density may offer affordable private spaces set back from streets and commercial areas, it also takes a toll on open space and environmental amenities.”

Figure 1 shows the basic trade-off between housing affordability and population density, or the degree to which the population is spreading out (“sprawling”). Population density is measured as the number of residents per square mile in each state in 2000. The most densely and least densely settled states are omitted as outliers (Alaska with 1.1 residents per square mile and Washington, D.C., with 9,316 per square mile). The smaller the density, the more the population of a state is spread out (i.e., the fewer the number of people per unit of land). Housing affordability is calculated as the share of homeowners for whom selected monthly homeowner costs in 2003 were less than 20 percent of their income in the past 12 months. The higher this share, the greater is the housing affordability in a state. Obviously, density is not the only factor that affects the cost of land and housing affordability in a state. Zoning regulations also matter (see, for example, Glaeser and Gyourko 2002), but the graphic makes clear that density is an important factor.

Rural areas are in an especially precarious position as urban areas expand in response to population growth. First, new housing development for various
reasons tends to be located in rural areas. In particular, “the search for more affordable housing by low- and middle-income families creates demand in the far reaches of metropolitan areas, often in undeveloped areas better suited to agriculture, conservation uses, or recreation and tourism” (National Governor’s Association, undated). On the other hand, the local property tax increases that often accompany the increased demand for public services from higher-income newcomers can pose problems for long-time residents living on fixed incomes, a process known as “gentrification.”

Second, rural areas generally lack the population and tax base needed to employ professional long-term staffs to deal effectively with land use-related issues, although this also can be a concern at the state-level when insufficient resources are made available for land use planning purposes. This is discussed in more detail in the next section.

![Figure 1. Tradeoff between housing affordability and population density](image)

**Rationale for a State Role in Land Use**

There are several reasons why state governments are justified in playing a role in land use planning and decision making. The first is that even though “all land use is local,” only state government has the broader geographic and spatial perspective necessary to guide the development of new land into appropriate areas effectively. Most economic, social and environmental processes do not stop at county borders, creating externalities for adjacent communities. For example, air pollution from factory emissions or run-off of pesticides from suburban homes into waterways often affects neighboring jurisdictions. Workers commute across county lines and ecological areas such as watersheds follow natural rather than administrative boundaries. Competition among county and municipal governments for economic and housing development has been shown to contribute to “leap-frogging” land conversion, which creates its own set of problems (Marshall and Shortle 2005, Deller 2005).

Many processes do not stop at state lines either. For example, relatively low-cost new housing development in the Poconos Region of Eastern Pennsylvania attracts residents from Manhattan, New York. When those new homeowners commute back and forth to their jobs in New York City along Interstate I-80, New Jersey residents face more traffic congestion and pollution. When counties in northern Maryland suspend new housing development because of water shortages, the resulting unmet housing demand is pushed into south-central Pennsylvania, which is dealing with its own land development problems (Collins...
and Goetz 2005). In such cases, policy coordination needs to occur at the state rather than county level.

The second rationale for state involvement in the area of land use is economies of scale in the provision of public services. For example, more than three-quarters of decisions made by local governments are estimated to involve some dimension of space. However, it is not cost effective for each county to have its own Geographic Information Systems (GIS) unit to carry out the necessary analyses. The state is better-equipped to provide this service as a valuable tool in land use planning, as demonstrated in the next section.

A final reason why land use concerns need to be addressed in some capacity at the state level is that multiple state agencies, which sometimes work at cross-purposes, both affect and are affected by land use decisions. Because these agencies have state-wide mandates by definition, it is usually impossible for an individual county to work with each of them in a manner that leads to a coordinated outcome. A recent Issue Brief from the National Governor’s Association shows how states can integrate affordable housing with state development policy. Since housing affordability is not independent of population density (Figure 1), and density depends on how land is used as well as state economic growth policy, another rationale is created for state involvement, however benign, in local land use decision-making and planning.

The great diversity of agencies involved in some aspect of land use is illustrated by the inter-agency coordination effort within New Jersey’s state planning commission. That effort includes the departments of Agriculture, Education, Transportation, Community Affairs, Environmental Protection and Treasury; the New Jersey Board of Public Utilities; the Economic Development Authority; the Transit, Commerce and Economic Growth Commission; and the School Construction Corporation (State of New Jersey 2006). Clearly, it would be cost prohibitive, and perhaps impossible, for a single unit of county or municipal government to work effectively in an independent fashion with such a diverse and large number of agencies. Numerous other examples of how state agencies coordinate to achieve economic development objectives, for example in the areas of environment, transportation, housing and energy, are provided in the National Governor’s Association Issue Brief (no date). Remarkably, nearly all of the decisions involved both depend on and affect land use, but this fact is rarely if ever explicitly acknowledged or recognized in policy statements or documents.

Directions for States’ Roles

One of the most important questions facing public decision-makers is how the land of a region is used to the benefit of its residents. The tools of benefit-cost analysis are employed to enumerate and place values on all of the positive and negative economic, social and environmental consequences of alternative land development paths. Once the net benefits have been calculated, the development path that yields the highest net benefit is chosen.

It is the state’s role not only to ensure that relevant spillover effects across county-lines are included in the calculation, but also that “non-market” outcomes or factors such as externalities are valued. More specifically, because these goods are not traded in markets they have no easily observed prices. Economists have developed methods of valuing such goods so that they can be included in benefit-cost analyses (for caveats about using the methods, see Abler 2005).

More generally, the state’s role can be described as one of convener and coordinator. Given the many diverse and conflicting interests that surround land use issues (including, for example, homebuilders, homeowners, housing coalitions, environmentalists, transportation planners) it is essential for one entity with broader perspectives and powers of law as well as persuasion to assume leadership in convening different parties and coordinating their actions.

The State of New Jersey again serves to illustrate a state’s role in land use decision-making, specifically, in providing a coordinating forum for exchanges. The state balances multiple objectives, including the twin goals of ensuring housing affordability while protecting the natural environment for future generations (State of New Jersey 2006). It has crafted a state plan with the purpose to:

“Coordinate planning activities and establish State-wide planning objectives in the following areas: land use, housing, economic development, transportation, natural resource conservation, agriculture and farm-land retention, recreation, urban and suburban redevelopment, historic preservation, public facilities and services, and intergovernmental coordination”

(N.J.S.A. 52:18A-200(f)).

This quotation also illustrates the tremendous complexity and inter-connectedness of issues related to how land is used in a densely-settled, highly developed state.
To implement the plan, New Jersey analyzed economic, social and environmental factors to designate three major planning areas within the state, including areas for growth; areas for limited growth; and areas for conservation. Each of the three areas, in turn, has a number of planning sub-areas, for a total of seven. Likewise, the State of Maryland has developed Priority Funding Areas into which it seeks to direct future development (State of Maryland 2006). A key concern in that state is the disappearance of farmland and natural habitats on the one hand, and the haphazard pattern of development whereby some regions experience extreme congestion and other parts of the state are abandoned, on the other. The high-amenity coastal areas, in particular, have severe housing shortages.

The conflict implicit in Figure 1 between a desire to preserve farmland and other working landscapes, on the one hand, and to provide affordable housing by developing less densely settled areas, on the other, provides another illustration of why states need to be involved in land use decisions. Generally, farmland and greenspace preservation are state- rather than county-level mandates. Furthermore, in order for farms to operate profitably, and have adequate access to input supplies and output markets, a minimum threshold number or acreage of farms may be needed in an area. Nevertheless, achieving greenspace preservation that is both economically and ecologically meaningful is likely to be much more easily and cost-effectively accomplished through state-level coordination than on a piecemeal county-by-county basis.

Summary

The case for the economic approach to land use decision-making at the state-level is compelling. Yet it is important not to limit the analysis only to economic objectives. Humans also are social creatures and many want their fellow citizens to meet basic needs of food, shelter and clothing. Humans also value the natural environment even though these preferences often cannot be articulated through market forces. Thus, social and environmental preferences need to be considered along with purely economic values. Furthermore, as illustrated above, state government is an appropriate decision-making unit for land use, even though land use is always embedded in a particular locality, i.e., at a smaller level of government. Important reasons for this include economies of scale that can only be achieved at the state level and the presence of spillover effects that do not stop at county borders and therefore cannot effectively be addressed by county government acting alone.

References


1 Lynch (2006), however, fails to find clear support for this conjecture and argues that states must develop additional policies beyond preservation to protect farmers.


The consumption of cultural and recreational activities is rising nationally, and there are opportunities for their supply in both rural and urban areas. In this brief paper I suggest five ways state legislators can help support rural communities' efforts to develop local cultural and recreational opportunities: through environmental quality improvement and protection, through the development of supporting high quality infrastructure, through marketing and promotion, through training that helps rural residents develop the skills needed in recreational and cultural industries, and through help in the assessment of culture and recreation industry development opportunities.

My comments are based largely on trends I have observed in rural communities in the Pacific Northwest and in the Rocky Mountain West. At the county level, we observe a variety of development experiences, including some very rapidly growing counties that are attracting large numbers of retirees and wealthy residents, and where the structure of income is strongly skewed towards non-earnings income that acts as a form of “basic” income for these places. Counties such as San Juan and Okanogan in Washington are examples where recreation and cultural industries have become part of the fabric of industrial activity that has helped attract related businesses, jobs, and migrants. However, there are other rural counties where population growth is slow or stagnant, and where incomes are depressed. For such places, I argue that recreation and cultural industries may represent a new basis for economic development.

In many rural communities, young people are moving out, unemployment is relatively high, and jobs in traditional natural resource oriented industries like agriculture, mining, fishing, and forestry are declining or stagnating. Many of these communities have lost manufacturing jobs tied to the processing of natural resources. The challenge for legislators is how to help rural places that are lagging. One possibility is to seize on cultural and recreational industries as a basis for economic revitalization. Recreation and tourism have long been viewed as substitutes for extractive natural resource production in rural places. However, there is a need for a broader conception of such opportunities that also includes cultural industries.

What are cultural industries? While they do not equate to tourism, there is some crossover, as when people travel relatively long distances to engage in recreational and cultural activities. In the U.S. personal consumption expenditure accounts, there is a category defined as “recreation” which encompasses arts, sports, commercial participant amusement (paying to amuse oneself, such as skiing or gambling), and expenditures on services such as ISP providers or renting DVDs. There is a slice of such activity that could be more fully developed in rural America, including the arts (music, dance, visual arts, theatre, and heritage activities), delivered by both non-profit and for-profit entities; other amusements, such as gambling and musical theatre; personally based participatory sports and outdoor recreation activity (e.g., skiing, hiking, climbing, golf, biking etc.); commercial sports (e.g., ski races, horse races); recordings, both visual and audio; winery-based tours, and organized participatory activities (such as commercial fishing expeditions, river rafting, whale watching, etc.).
Collectively, these activities are enjoying a rise in their level of consumption. We can find rural areas where they are already flourishing, but the question is whether they might be fostered in other areas. I think they can be, helping to create jobs in distressed communities. However, before discussing how legislators might help, let me touch on a few other aspects of activity in these domains.

The consumption of recreational and cultural activities typically requires expenditures on other activities in the locality where the consumption occurs. The nature of this related spending depends upon the duration of the trip, with day trips typically involving lower expenditures than overnight trips. On day trips it is likely that expenditures in the rural community would be made for food and beverage, travel costs (including fuel and organized transportation activity), souvenirs, permits, film, and sporting goods. Overnight trips typically include expenditures for lodging that could occur in a variety of settings ranging from hotels and motels to RV parks and campgrounds. Data sources like the National Travel Survey can help development officials better understand these trips.

Durable and non-durable goods are also required to consume recreational and cultural industries in rural areas. Spending on durables is likely to be concentrated in the regions from which visitors to rural communities originate, but some is also likely to occur in the vicinity of the cultural or recreation site. The kinds of outlays that are involved include bicycles, vehicles, fishing gear, and climbing equipment. Non-durable goods include things like specialized clothing, fishing gear, food and drink, and ski wax. Occasionally, there are destination outlets in rural areas that provide such goods, such as L.L. Bean’s famous store in Freeport Maine, or Wall Drugs in South Dakota.

Some cultural industry travel in rural areas is very specialized long-distance travel, such as the trip I made to Patagonia in March 2005, and has a very different pattern of spending. But the majority involves shorter distances, offering great opportunities in rural America for expanded development of cultural and recreational activities. A clear danger for continued growth of culture and recreation in rural places would be real rises in the cost of travel, due to high energy prices. But, let us assume that there continue to be rises in real incomes, and consumers choose to spend more on cultural and recreational services.

There are five ways state legislators can help develop cultural and recreational industries in rural communities. In many cases, efforts can be linked to the historic economic base in the given rural area. Almost every rural county has some such history that can be foundation for cultural, recreation or tourism development, or has visual attributes that can be the foundation for new enterprises capitalizing on environmental or cultural values embodied in the place.

Support high quality environments

Many of the activities listed above require a high quality physical environment, and traditional rural industries in many cases have caused environmental degradation. Forestry has often led to “moonscapes” of logged over land, while mining has left a legacy of landscape scars. In some cases, farming has also produced erosion and visually unpleasant landscapes, while some fishing communities are dilapidated and unwelcoming. Ski areas are often very unpleasant visually in off-seasons. The list goes on, but the key point is that the attraction of people to rural spaces where various types of cultural and recreational activities can occur is intricately tied to environmental conditions in those spaces. State legislators and local governments should prioritize managing environmental quality where cultural and recreational activities are viable development options.

Support infrastructure investment

There are clear infrastructure needs in rural areas for the production and consumption of output of cultural and recreational industries, including trails, roads, production/performance venues, and the like. Each of type of cultural and recreational industry has associated capital needs. Some of those needs are public sector responsibilities, and others must be met by the private sector. However, state legislatures and executive branch agencies should put institutional arrangements in place to ensure these investments are coordinated or undertaken.

Promote recreation and cultural industries

State governments can help stimulate demand for cultural and recreational industries in rural places by undertaking marketing and promotion activities. That could include development of web-based materials, print media (guidebooks and maps), and advertising. Many states now have web-portals to counties or localities, aimed at tourism or industrial recruitment. A broader agenda could be identified, with emphasis on the types of recreation and cultural industries that have “roots” in particular rural areas.
Provide training

This is a very complex topic, involving possible retraining of people already in rural communities, as well as attraction of people to rural communities with capacities to supply the types of cultural and recreational industry output discussed above. “On the ground” work in each place will be needed to develop labor force capacity in both the private and public sector, producing the skills needed to make the development of cultural industries viable economic opportunities. States could take the lead in providing the type of training needed through community colleges or extension-based programs.

Assess development possibilities.

State and local governments could help undertake assessments or feasibility studies of possible recreational and cultural industry opportunities in rural communities. While entrepreneurs may “smell” niche opportunities, it is likely that governments can help detect them.

In summary, the ongoing shift towards an ever changing service economy presents rural America with some development challenges. With the right mixture of infrastructure, environment, promotion, training, and technical support, recreational and cultural industries in rural America could be an enhanced basis for economic development. Cultural and recreational industries have been major forces in the development of urban America, and with the right nurturing they can also be a new basis for growth in rural communities.
"Boosting" Tourism as Rural Public Policy: Panacea or Pandora’s Box?

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Tourism promotion represents popular public policy because of its focus on image improvement. After all, what politician would criticize efforts to "boost" the perception of one's own state and advertise the resources that draw attention, visitation, and positive notoriety? Indeed, promoting tourism is a political no-brainer. But, political convenience does not necessarily convey long-term societal improvement. Does it make good policy sense from the standpoint of rural development? Are increased levels of tourism in the best interest of communities affected by tourists? Are the jobs created by tourism the types of jobs needed by people in rural America? This paper argues that states should move away from traditional "boosterism" approaches that focus simply on stimulating tourism demand toward more integrative planning frameworks that focus on the real costs and benefits of tourism growth.

Boosterism as a Policy Focus

Tourism as state public policy is heavily focused on direct advertising and marketing. During 2004, states invested over $550,000,000 in offices of travel and tourism (TIAA 2004). About half ($240,000,000) of that was spent directly on advertising and most of the rest fell into the realm of marketing research and cost sharing with local units of government for local marketing programs intent on attracting tourists. The activities carried out by states tourism offices are easily characterized within the "boosterism" approach to tourism planning (Hall 2000).

"Boosterism" as the primary focus of state tourism policy has, at its core, the untested and preconceived conclusion that the attraction of tourists has developmental benefits that exceed costs. It is, however, but one approach to tourism planning that represents a simplistic view that tourism is inherently good with automatic benefits. Within a "boosterism" approach to tourism planning, analysis and goal setting are approached within a purely marketing context that closely parallels the desires of hoteliers, restaurateurs, and travel business interests (often collectively known as the "hospitality industry"). There is little consideration or thoughtful analysis focused on the net economic, social, and/or environmental impacts brought about by tourism. Because of its obvious political benefits, "boosterism" remains the dominant tourism planning approach followed in the United States; indeed, it has been since the onset of mass tourism initiated in the 1950s.

Integrative Tourism Planning

Other approaches to tourism planning can, and should, be considered to provide a more objective basis upon which public policy decisions can be made. Integrative tourism planning as an approach focuses on the role of tourism in providing lasting and secure livelihoods for residents (ibid; Marcouiller 1997). The basis of this approach rests on a broader societal viewpoint with developmental impacts assessed on longer time horizons. Integrative tourism planning actions are coordinative, iterative, and strategic with full recognition of the interdependency of stakeholders in a complex tourism "domain". It requires moving away from the traditional "boosterism" approach that focuses on stimulating tourism demand. While demand stimulation could remain, its intended outcome now requires integration with tourism supply components related to local labor markets, cultural
and natural resource endowments, public goods, and local amenities.

Careful investigations of the supply side components of tourism are critical to the creation of informed public policy and integrative tourism planning. While much is known about the demand for tourism resources that lead to advertising and marketing initiatives, little is known about the inputs required to produce tourism itself. Understanding these inputs is necessary if we wish to address important issues related to the private business climate of tourism. Rural public policy examples that target inputs include workforce and small business development initiatives, main street initiatives, local parks and recreation programs, natural resource management, and land use planning. These inputs also provide the basis upon which we can address the use and management of publicly provided amenity resources that create a primary motivating element behind tourist travel. Simply said, the foundation upon which we build rural tourism is a direct function of the supply of local resources.

A key element in community support of tourism development is its ability to create jobs. Many argue that policy-makers base decisions on tourism promotion and development from a job-creation standpoint without sufficient information on the actual employment-performance of tourism industries. Analysis of tourism employment needs to account for more than simply numbers of jobs. The type of jobs created from the standpoint of wage rates, permanence, career opportunities, and skill levels employed is important. Indeed, many have identified that jobs in tourism tend to be relatively low wage, seasonal, and part-time and often act against regional developmental objectives of high wage job creation.

The Reality of Tourism Jobs

In reality, tourism tends to generate high levels of seasonal, part-time employment opportunities primarily geared to first-time workers and young people with little work experience. In addition, these types of job opportunities are argued to be an important supplemental income component for retired people and others who are experiencing work transitions. On the other hand, for certain types of tourism jobs, lucrative career ladders exist. Examples include professional entertainers and athletes, hotel and gaming managers, tourism establishment engineers, and highly-skilled personal service occupations such as chefs and directors of sport facilities (e.g., ski directors and golf pros). Also, meeting planners, tourism marketing professionals, and public sector jobs are key steps on career ladders that can build from entry level positions in tourism (Belau 1999; Lee and Kang 1999; Dresser and Hatton 2003).

Tourism businesses tend to provide incentives for entrepreneurial behavior of individuals. Applied sociological research suggests that many people enter tourism jobs from other industries and that tourism skill sets tend to have background impacts favoring entry-level positions while still making it possible for motivated individuals to work up through the ranks thus attaining more managerial and professional positions. Further, this research suggests that patterns of mobility, orientation to work, and self-evaluation are hallmarks of successful tourism workers. In particular, accelerated opportunities for advancement and incentives for entrepreneurialism lead to general satisfaction of those who successfully remain employed by tourism businesses. Tourism employment as a “way of life” is supported by the notion that people were prepared to surrender education-occupation compatibility in return for a more self-controlled work-life relationships.

The wide variety of employment types in tourism businesses has rural development dimensions from the perspective of generating a widely varying set of income streams. The issue of income distribution is complex and empirical work has yet to generate sufficiently robust results to inform generalized theoretical approaches. There are, however, a limited number of studies that have evaluated the distributional effects of alternative sectors, including tourism (ibid; Leatherman and Marcouiller 1999; Marcouiller et al. 2004a). This research suggests critical developmental linkages. In particular, results indicate that when compared with traditional primary industries in rural America such as agriculture, forestry, and mining, tourism generates a predominance of lower income job opportunities. Tourism is related to the post industrial “hollowing out” of the middle income classes and is primarily a low-wage industry and thus more likely to sustain living standards for those in the lower income classes.

Again, more research into income distribution is needed to provide useful input into public policy responses. There are interesting connections between income distribution and other elements important to tourism. For instance, in recent work by Fernández-Morales (2003), seasonality was shown to be an important element in explaining the distribution of income. The results of this research suggest that during peak tourism seasons, income inequality decreased, with the most pronounced period of high income inequality occurring during the “off-season”. This makes intuitive sense but highlights the need for further research. What rural developmental impacts occur when reliable income streams do not exist for six to nine months
of every year? What off-season opportunities exist for developing reliable income streams for rural households?

Based on ad-hoc conventional wisdom and without thorough analysis, the availability of employment opportunities resulting from tourism demands is often seen either as beneficial and appropriate to local labor markets or acting against community-determined economic development goals. An underlying tension exists within the conventional wisdom related to tourism which can be characterized by extremes that reflect two ill-conceived positions. On the one hand, proponents of tourism argue that broad-based employment benefits are substantial and therefore clearly justify large marketing subsidies to increase the incidence of tourist travel. On the other hand, opponents of tourism argue that jobs created by tourism firms tend to be low-wage, seasonal, and lacking substantial benefits and, therefore, public resources targeting the creation of jobs are best focused on industrial sectors characterized by higher wage/benefit and year-round employment opportunities. Both arguments rest on a clearly specified need for further objective labor market assessments for tourism.

Objective economic research on tourism labor is scarce for two important reasons. First, tourism as a development option is really a very recent phenomenon. Mass tourism began in the 1950s and a decidedly corporate tourism phenomenon occurred only since the 1970s. Second, the notion of tourism as an “industry” is not straightforward (Smith 1998). It is important to realize that an assessment of labor used in tourism is incomplete without a full assessment of the self-employed component, including both business owners and their families. Proprietor’s income can be used as a proxy to show the benefits to business owners where wages may be insufficient to account for all earnings derived from tourism supply. Most contemporary assessments of tourism industries do a poor job of capturing this element. Often, the entrepreneurial opportunity afforded to those who are self-employed is a primary underlying objective in tourism development policy. Evidence supporting this statement is found in arguments promoting the generation of tourism-related business benefits in local communities.

Understanding the role of tourism in providing income requires a thorough assessment of occupational structure and labor market characteristics. Furthermore, spatial differences in where labor is employed and income is generated is needed to better understand the role of tourism across the varied landscapes of alternative region types, from urban and suburban communities to remote, rural towns.

Results of recent research in Wisconsin suggest that the travel and tourism “industry” is comprised of several sectors that are, more or less, dependent on travelers for a portion of their total receipts (Marcouiller et al. 2004b). In Wisconsin, these ten sub-sectors employed over 300,000 people in 2002, slightly more than 10 percent of the entire workforce in the state. Further, these travel and tourism sub-sectors generated roughly $4 billion in wage and salary income. Occupational structure of the wage and salary employment was concentrated in the Food Preparation & Serving and Sales occupations. Indeed, these two categories accounted for roughly 74 percent of the jobs and 60 percent of the wage and salary income of the total employment picture in the ten sectors used to define travel and tourism. In addition, the roughly 22,000 firms accounted for in the study generated roughly $1.4 billion in proprietor’s income, an important incentive for small business entrepreneurship across the state. Both wage and salary and self-employed income were concentrated in the 25 urban and suburban counties of Wisconsin.

Occupational structure and the distribution of income provide ample opportunities for further discussion. Results confirm much of the descriptive results of Lee and Kang. Namely, that the travel and tourism sectors are an important generator of employment for entry-level people, those in transition, and those seeking supplemental income sources. Generally considered a “low-wage industry”, travel and tourism are more likely to help in improving living standards for those who find themselves with limited skill sets or seeking work for quality-of-life and other non-monetary reasons. Further work is needed to confirm the hypothesis of tourism’s distributional “hollowing-out” effect. Certainly, additional work will continue to develop useful empirical policy-relevant studies that view tourism and travel and one of several critical sectors to future community economic development throughout the Lake States. This work also provides a rather substantive future research need and can build from the previous work of Wagner, Lee and Kang, Fernandez-Morales, and my own work.

The Policy Debate

Contemporary policy discussions surrounding travel and tourism are wide ranging. In addition to public budgetary subsidies for promotion, specific issues of public policy surround labor availability during peak tourism season through the implementation of a school start policy after Labor Day, minimum wage laws, availability and legality of migrant labor, and training in hospitality sector skills, to name just a
few. Work by Belau at an international level and by Bernhardt and others at the University of Wisconsin Center on Wisconsin Strategies (COWS) attempt to frame policy discussions around an ability to affect high quality labor in tourism and develop “normative” inferences. Quite specifically, perhaps we should focus less on the QUANTITY of jobs created and more on the QUALITY. How does employment in tourism fit within the stated policy objectives of creating high QUALITY jobs? The answer: apparently not very well!

Finally, there is a continual need for extending community-oriented and integrative tourism planning into the rural public policy venue. That takes on both thematic and process elements. Incorporating wider stakeholder involvement in the planning process while developing a more complete understanding of the implications of tourism on local communities will inevitably lead to development that addresses key people-oriented needs found at the forefront of regional planning efforts throughout the Lake States and across rural America.

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Building Community Visions of Assets, Competitiveness, & Partnerships: A State’s Role in Rural Economic Development

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The increasingly rapid changes in the world marketplace are having significant effects on all regional economies, creating both challenges and opportunities. The challenges for rural economies have been especially pronounced. Rural economies rely on low land and labor prices for their competitiveness, with commodity agriculture and manufacturing as their economic foundations. Globalization is introducing the possibility of much lower input costs for commodity production, leading to a steadily deteriorating competitive position for these traditional rural industries. Agriculture continues this transition after a particularly sharp series of contractions in the 1980's; rural manufacturing plants are arguably going through their most difficult transition phase. Neither can be the easy, natural, longer-term economic foundation for the rural economy in the future.

Rural communities are thus facing an especially uncertain economic future in the new globalizing environment. While some have prospered, such as those with natural amenity advantages, most have struggled. The most immediate symptom of these struggles is the rapid out-migration of educated youth, traditionally the first to yield to relative changes in geographic opportunity. School districts shrink and consolidate, alongside other public service providers with significant fixed costs, such as hospitals. Larger rural towns benefit from this transition, a fact underscored by the rapid growth of micropolitan counties as the nation recovers from its last recession (Henderson and Weiler, 2004). This shifting of the rural settlement hierarchy parallels changes in the underlying economic foundations of rural areas, and is likely to only accelerate.

Urban areas with more vibrant economies need less help with forward-looking perspectives, as the greater amount of business activity naturally provides both scale and breadth of probing economic agents leading to constantly evolving insights on local assets and links to particular markets. In contrast, the smaller scale of rural areas limits the amount of information they can analyze from the outside world while at the same time limiting the amount of information they can provide about themselves. Information is a public good with a sizable fixed cost, putting sparser regions with greater coordination difficulties at a double disadvantage. In addition, rural regions facing ongoing economic stagnation problems, and thus limited business activity, also have the narrowest bases on which to evaluate potential new opportunities.

Given this context, states can most effectively support their resident communities’ economic development prospects through three information-oriented leadership roles. First, states can help these areas get a sense of their local assets beyond their traditional reliance on low-cost land and labor. Second, states can illustrate the importance of connecting these asset bases to particular competitiveness strategies. Finally, states can underscore how such strategies can be made even more effective by thinking regionally rather than just locally. Even with state assistance, the ultimate prosperity goal of each community will be self-defined, balancing growth, income, jobs, environment, quality-of-life, and other features in whatever way it deems best for itself.

Assets

Throughout history, assets have determined the markets and strategies that regions can effectively engage. In the industrial era, immobile competitive advantages in economic assets guided the economic
prospects of regions. Immobile advantages are those that can not be cost-effectively moved over vast distances, such as soil fertility, ore veins, and direct access to transportation corridors such as rivers and railroads. Siting of production facilities was thus dictated by the location of the key inputs, leading to the steel mills of Pittsburgh and the hydro-electric power sources of the Northwest that supported Boeing’s ship-then-plane-building.

The traditional commodity orientation of rural economies in the 20th century was predicated on the assets of abundant and low-cost rural land and labor. Yet rapid globalization means that lower-cost sites are increasingly available overseas, as improvements in transport, technology, and information flows allow production for the domestic market from almost any corner of the planet. Rural communities now find themselves facing the global marketplace with increasingly competitive traditional asset bases. From this situation arises the first role for state government, namely to encourage communities to more broadly assess their current and prospective foundational assets.

Labor and capital tend to be the first two focal points for economic development prospects; indeed, both have been foundational assets for past rural economic strength. In this way, areas without critical masses of manual labor can work to attract such workers to make the region conducive to growth in worker-intensive industries. A recent example is the meat-packing industry in the Midwest, based largely on immigrant labor from Latin America. Yet this strategy inevitably will run into the same factor-cost competition as past experiences, and cannot be the solution for more than a handful of rural towns.

Regions could also attract business capital investment directly by wooing and subsidizing firms to locate in their areas. But recent research indicates that such strategies are ineffective in significantly influencing company location decisions, and can have significant hidden community costs. Moreover, this approach focuses on poaching existing activity rather than creating new value, presenting the macroeconomy as a whole with at best a zero-sum game. Again, this approach is also not a long-term solution.

The informational leadership role for states, then, is to have communities recognize that critical assets have in fact changed over time in response to evolving marketplaces. The newly-dominant service sector is considerably more diverse than its blue-collar commodity-producing predecessor, ranging from high-skilled engineers and software developers to lower-paid retail workers and elderly care staff. Increasingly, the key asset is a region’s human capital—the knowledge, skills, and education of its residents.

The human capital asset base has many positive effects on a region’s prosperity prospects. A local labor force’s education and skills are primary determinants in firms’ location decisions, particularly those with the greatest growth and income prospects. Education effectively opens regions to more information, networks, and markets given the clear relationship between educational attainment and intensity of Internet usage. Quality primary and secondary education, which are directly influenced by state policymakers, are high foundational priorities for most regions, and themselves are attractive to high-quality worker-parents. Regional universities and community colleges can be significant drivers for an economy, both through their role in creating an educated local workforce as well as through the seeding of new ideas and technologies into the region.

In conjunction with human capital, entrepreneurship is a further critical asset in the new economy, particularly in providing the basis for a continuously innovative regional economy. Entrepreneurs probe new ways to combine and leverage regional assets, paving the way for further innovative activity. In order to provide the crucial knowledge and ideas to this entrepreneurial base, as well as the broader workforce, human capital becomes even more critical as a core regional economic asset. Interestingly, rural areas tend to already be naturally entrepreneurial, given their history of farming (perhaps the most broadly entrepreneurial industry of all) alongside the fact that rural enterprises, shops, and services by their nature are almost universally small-scale.

States can usefully inform communities on the potential value of other neglected new economy assets in the financial and lifestyle arenas as well (Weiler, 2004). “Thick” information on regional markets is itself an asset, indicating the relative transparency of private business opportunities and lesser needs for public and non-profit sector economic development support (Weiler, Hoag, and Fan, 2006). Yet such information is likely to be lacking in rural communities. These “thin” informational markets tend to obscure opportunities for private investment, yet yield additional community returns for new private sector activity (Weiler, Scorsone, and Pullman, 2000). Information provision by states thus can help rural areas compete on a more level playing field.

Competitiveness Strategies

Given that assets are the bricks and mortar of regional development potential, competitiveness strate-
gies are the blueprint that puts these resources to best use in the pursuit of regional prosperity. Such strategies have their basis in the traditional economic notion of "comparative advantage," in which nations or individuals specialize in particular activities to the benefit of both the producer and those with whom s/he trades. Competitive advantage denotes a criterion both stronger and broader than a superiority in particular activities compared to other areas. First, the term suggests that simply being comparatively good at something is not sufficient for success; one must be competitive in the nurturing of that specialty through a region-specific strategy combining local assets. But the term also indicates that simply because one region is specializing in a comparable niche or exploiting a particular asset does not preclude another region from also using that niche/asset competitively, especially given the expanded range of possibilities provided by the new global marketplace.

In terms of competitiveness strategies, states can guide communities in a variety of ways as they seek their own competitive niche. Retention of an asset base is as crucial as developing such a base, and thus becomes a strategic end in itself. In particular, rural areas must keep and attract a highly-skilled entrepreneurial citizenry to supply ingenuity as well as leadership to a region.

In this spirit, states can emphasize and support the importance of a broad variety of amenity factors. Human capital is more easily drawn to and retained by areas with amenities. Immobile competitive advantages are thus again shaping regional economic prospects, perhaps as much as their mineral vein and waterway antecedents. As Graves (e.g., 1976) noted in his seminal regional economics research, amenities are normal goods; as incomes rise, people prefer locations with better restaurants, thicker forests, and more sunshine. In particular, those people with the most skills, and thus highest income potential, are those that are most likely to desire amenities.

While many rural areas do not have the automatic advantages of California’s or the French Riviera’s coastline, nor the Rocky Mountains or Alps to attract good people, smaller-scale natural amenities such as parklands, trails, and waterways can be important to a region’s image as well. Developing such man-made amenities becomes a further possible asset-based strategy to promote regional prosperity prospects. The fact that people prefer natural amenities suggests the broader importance of a variety of amenities in shaping a place’s desirability.

Many people in fact consider the lack of congestion, low crime, good schools, neighborliness, and other features of rural areas as attractive “social” amenities, which states can highlight as components of regional competitiveness strategies. Rural areas can supplement these traditional social amenities with arts, culture, and/or history unique to their locality, as small towns from the Rocky Mountains to the Doge to Tuscany have shown. Retirees with independent income sources are moving in considerable numbers to rural places, seeking precisely such amenities. Keeping good young people and attracting others would naturally complement such flows. Single localities may not be able to offer sufficient attractive characteristics on their own. However, broader regions could provide compelling combinations of amenities across a variety of categories. States have a natural leadership role here as well, as discussed below.

Regional Partnering

Given rural areas’ geographic sparseness, a critical level of assets may not be within reach for any single community, creating the third leadership role for states. Rural communities suffer from the reinforcing drawbacks of isolation and small scale, and encouragement to partner beyond traditional jurisdictional lines can help mitigate these disadvantages. A recent OECD report specifically emphasizes the value of "closer co-operation among municipalities [to improve] the cost efficiency of local public services and improving the coherence and impact of development projects" (OECD, 2005, p.14). Again, though, to maximize the chances for productive partnerships, these collaborations should match regional assets to make the regional whole greater than the sum of its parts. States have that broader vision that individual communities may not.

In addition to emphasizing the advantages of rural communities collaborating with each other, states can encourage both metropolitan and rural regions to strategically partner with each other to take advantage of each area’s relative strengths. Proximity to a metro area has been shown to be an unusually good predictor of rural area economic success. Yet metro areas themselves gain from the nearby rural options for back offices, broader residential choices, and other support services that mesh better with rural characteristics. Jason Henderson’s developing work (e.g., Henderson, 2004) demonstrates that rural areas in fact may help lead metro economies out of recessions. The result could be due precisely to the service/support orientation of rural areas, which allow lower fixed cost (and thus lower risk) establishments to develop early in an economic cycle when demand conditions do not yet warrant (urban) large-scale investment risks.
Such partnering tends to be a crucial factor defining those regions that achieve their economic development goals. Partnering allows synergies between regions’ asset bases, expanding the range of potential competitiveness strategies and focal markets. Partnering also provides critical mass, allowing scale and scope economies to develop between sectors, institutions, and asset bases. In these ways, partnering itself becomes part of a rural region’s competitiveness strategy.

By encouraging communities to think regionally, linkages between workers, consumers, businesses, and communities can generate new complementarities that enhance the prospects for economic prosperity. States can play vital roles in creating such fresh opportunities by providing key informational and leadership resources as rural communities discover the assets, competitiveness, and regional partnering on which to build their economic futures.

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A Brief on When and How  
Rural Economic Development Should be Done

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Reports of worrisome economic trends and deficiencies in rural areas typically spawn pronouncements on the need for rural economic development. Such reports often highlight: declining employment in primary economic sectors, high unemployment, a lack of jobs for young workers and a consequent aging of the population, overall population loss, closures of local businesses, declining per capita incomes relative to urban areas, inadequate education and healthcare, and high rates of poverty. What are seldom subsequently addressed, however, are issues of whether these can and should be remedied, and whether the state should play a role.

In the following, I discuss these issues and recommendations are based on what we know from academic research on rural areas (and regions more generally), including research I have done with long-time collaborator Mark Partridge. I first address the issue of whether a case can be made for state involvement in rural economic development efforts. This is followed by discussion of how to decide which areas to develop. I conclude by offering a few broad guidelines for state rural economic development strategies.

The Case for State Involvement

Following general decline in the 1980s, population growth rebounded in nonmetropolitan areas during the early 1990s, only again to falter in relative terms during the late 1990s and early part of this decade (USDA, 2006). In addition, nonmetropolitan growth has been unevenly distributed across regions, in which nonmetropolitan counties nearest metropolitan areas grew fastest (USDA, 2006). To be sure, for areas on the metropolitan fringe, concerns with urban sprawl and environmental degradation may dominate economic development concerns. All else equal, during the 1980s and 1990s the further a nonmetropolitan county was located from a metropolitan area, the lower was its employment and population growth, and this effect was more pronounced the further a county was from the larger metropolitan areas (Partridge et al., 2006a; 2006b). That suggests that remote rural areas in sparsely populated regions were most at risk for stagnant or negative population growth. (As noted by Isserman (2005), however, nonmetropolitan areas are not synonymous with rural areas, in which rural areas exist within metropolitan counties and nonmetropolitan areas are varied in their ruralness).

Strong market forces likely underlie rural population growth patterns. The decline in family farming and many resource-based activities, along with globalization-induced decline in several manufacturing industries, have left many rural areas devoid of an economic base. Correspondingly, cities appear to have experienced an increase in competitive advantage, particularly in services (Desmet and Fafchamps, 2005) and information-based sectors (Le Bas and Miribel, 2005). Given the strong market-driven rural growth patterns, the natural question to ask is whether economically distressed rural areas should be targeted for economic development? Or should people in those distressed places simply be encouraged to relocate to areas with more vibrant economic growth?

The United States has often been characterized by academic economists as having perfectly mobile labor (Blanchard and Katz, 1992), which according to neoclassical economic theory argues against targeting specific rural areas for economic development (Partridge and Rickman, 2003b). If households are fully (costlessly) mobile, they reside in the location deliver-
ing them the most satisfaction. They respond to local job losses by relocating to areas with better economic prospects. This equalizes satisfaction with location of residence across all areas. So, tautologically, no attempt need be made by states to improve the welfare of their residents through within-state-geographically targeted economic development (and by implication no need for rural development by the federal government).

However, there is substantial evidence that rural households are not perfectly mobile. Households with lower levels of education and skills, who are typically least likely to be employed, have been observed to be less geographically mobile than the typical American household (Yankow, 2003). Distance to potential migration destinations creates transport and psychic costs of relocation for rural households, impeding their mobility. Likewise, cultural differences between rural residents in many remote areas and those in more urbanized areas may make rural residents reluctant to move. To move, rural residents also often must leave behind support networks, such as family childcare assistance, required for survival. Low-skilled and lesser-educated rural residents may simply move to other underperforming counties because that is where they may be most in demand, where available housing is cheapest, or where they have other support networks (Nord, 1998). Empirical support for sluggish labor market adjustment is provided by Gallin (2004) and for incomplete migration adjustment in particular by Partridge and Rickman (2003a; 2006).

Therefore, state economic development efforts that successfully stimulate employment in remote rural areas could potentially improve the welfare of their residents who may have been left behind economically, particularly in the short run (Partridge and Rickman, 2003b). Indeed, research on rural poverty reveals that remote rural areas possessing high rates of poverty particularly benefit from job growth (Partridge and Rickman, 2005a). According to this research, area job growth increases employment rates, increases wage rates, and thereby reduces poverty rates. The primary causal mechanisms for the greater anti-poverty effects of job growth are lower rates of migration and commuting in remote rural areas. Potential in-migrants or in-commuters may be unwilling to take work in these counties or are simply unaware of the jobs in these regions because of their remoteness. Lower out-migration and out-commuting of residents occurs in response to job losses for the reasons mentioned above. Thus, the well-being of long-term residents in remote rural areas is more dependent on local job growth; rather than adjustment to employment shifts through migration, remote rural areas more likely experience changes in unemployment rates, labor force participation rates, wage rates, and poverty rates.

Rural Area Targeting Guidelines

The above discussion suggests that targeted rural economic development can potentially increase overall state economic welfare. Targeted rural development also could address the issue of economic equity or fairness. However, aside from equity concerns, how can the best candidates for economic development be identified?

First, areas containing larger population shares of those economically disadvantaged and left behind should be identified. Some remote areas may only contain individuals who desire more space or other site-specific amenities, and are satisfied with their economic opportunities. For example, areas dominated by economically footloose households seeking a high quality of life (e.g., retirees) would be poor candidates for further development. In addition, if people readily leave economically declining areas there may be little reason on social welfare grounds for developing them; these individuals may simply have lived there to take advantage of temporal economic opportunities and have few other ties to the area (e.g., energy boom/bust areas).

Second, areas suffering the greatest disadvantage of location should be identified, as these may be the most difficult to develop. If the areas lack sufficient scale, the costs may far outweigh any benefits from economic development. Yet for many underperforming remote areas there is some cause for optimism. In the 1990s, a large number of previously persistent high poverty counties experienced acceleration in their employment growth and dropped below the high-poverty threshold (Partridge and Rickman, 2005b). Initial conditions such as lower levels of education did not prevent them from experiencing positive economic outcomes.

Generally though, areas should be developed that have stronger ties to urbanized areas. Even among non-fringe nonmetropolitan areas, those closer to cities, particularly to larger cities, appear to be more attractive to businesses and households (Partridge et al., 2006b). Close proximity to cities reduces transportation costs for businesses in terms of delivering their products and in purchasing their inputs. Similarly, close proximity provides households job-commuting opportunities and allows them to take advantage of urban amenities such as better shopping, restaurants, and cultural attractions. The reason businesses are willing to locate outside cities is to avoid their conges-
tion costs while taking advantage of close proximity. However, since market forces favor these areas, they may be less in need of state economic development efforts. The trick is to find areas situated reasonably proximate to urban areas in which market forces have not already led to their development — i.e., areas where there is market failure.

Third, counties with excess public infrastructure should be identified. Excess public infrastructure in a county would reduce additional strains growth places upon state and local government budgets. For example, schools may have fewer pupils than the facilities can accommodate, there may be excess sewage and water capacity, or underutilized roads.

Development Strategy Guidelines

The above discussion suggests that a comparison of expected benefits and expected costs be made for each candidate area, in which not all counties may pass a benefit-cost ratio for economic development. There are numerous other factors which may affect whether a county would pass a cost-benefit requirement for economic development. These factors could be used as guidelines in developing statewide economic development strategies.

First, consideration should be given to the reason for an area’s decline. Deficiencies cannot be corrected without first accurately identifying them. Some areas may have experienced declines because of concentration in nationally declining economic sectors. These areas would need to turn their attention to attracting firms in nationally growing sectors for which the region is competitive. Other areas may decline because of increased economic disadvantage. For example, increased global demand for education and skills in growing sectors hurts areas possessing lower skill and education levels. Similarly, an increase in the desire among households to live in cities draws population from remote rural areas, particularly those lacking household amenities. Some areas also may lack requisite private and public infrastructure to attract nationally expanding economic sectors. Low levels of education and infrastructure are factors that might then be addressed, while it may not be possible to remedy other deficiencies.

Second, states should identify which firms are most able to be competitive in more remote rural areas. Some firms require close proximity to other firms, because of transportation costs, or needed access to ideas and information flows. These firms are unlikely to locate and thrive in remote rural areas. For example, firms in mature sectors such as many manufacturing industries, which are no longer in the formative inno-

vative stages requiring location in dense areas, may be more profitable in remote areas where labor and land costs are lower (Rossi-Hansberg, 2005). Yet, it would need to be industries for which it is more profitable to produce in remote rural U.S. regions than in developing countries.

Third, rural economic development policy should be combined and coordinated with people-based policies. Successful economic development may require implementation of multiple strategies, which are tailored to the particular circumstances of the area (Blank, 2005). For example, recruiting “new economy firms” may prove to be futile if the area labor force lacks requisite education and skills, or lacks sufficient quality of life to attract educated households. Yet getting local households to further invest in jobs skills and education may require evidence there will be a payoff in the area, requiring ongoing business recruitment efforts.

Fourth, states should develop regional centers of economic activity. Economic competitiveness requires some concentration of economic activity. Rather than evenly spreading activity across all areas of a region, it would be better to concentrate the activity within the region, and have the benefits of the concentration spread outward from the mass of activity. The benefits can spread outward because residents from outlying areas may commute in to work in the regional center, and because of possible development of tertiary businesses in the outlying areas serving businesses in the regional center. Trying to evenly spread the activity across all areas may make the entire region economically uncompetitive and unsustainable. To be sure, Partridge et al. (2006b) find that rural county employment growth increases with proximity to urban areas, but is unaffected by proximity to economic activity in general if it is not concentrated. States should also then encourage cooperation among all areas in an economic region. Empirical research documenting the linkages between regional centers and outlying areas (e.g., Partridge et al., forthcoming) could be used to convince legislators and economic development policy makers of the need to cooperate. States can provide leadership and incentives for local areas to leverage their economic development efforts with the state. For example, states can provide tiered subsidies and tax breaks, which are tied to regional partnering and cooperation in rural area economic development efforts. These efforts also should be leveraged and dovetailed with federal economic development efforts.
Summary and Conclusion

An economic case can be made for state involvement in rural economic development. People in many rural areas have been left behind economically. Yet, rural areas most in need of economic development may be the most difficult to develop. A balance between need and cost must be struck. This requires a sound understanding of the strengths and weaknesses of rural areas. Likewise, it requires understanding the spatial economic structure of rural areas, both in terms of economic interrelationships between rural areas, and those between rural and urban areas. This knowledge also should be used in the design of state rural economic development programs. Economic development specialists in universities are often an ignored or underutilized resource in this process. Finally, states should work to obtain broad-based support and cooperation for their rural economic development programs, coordinate all efforts, and monitor their progress, to ensure broad-based socioeconomic policy objectives are being met.

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Building a 21st Century Rural Workforce

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It is no secret that much of rural America is struggling economically. Despite similar employment growth rates, nonmetropolitan areas tend to have relatively higher unemployment and underemployment rates and slower population growth rates than their metropolitan counterparts. Additionally, over the past 15 years, evidence from several states suggests that nonmetropolitan job losses have been in relatively high paying sectors, whereas growing sectors in the rural economy tend to pay relatively low-wages (Shields and Vivanco 2003).

One important consequence of this dynamic is an increase in the disparity between metropolitan and nonmetropolitan household incomes. For example, Bureau of Economic Analysis data show that over the period 1969-2002, the average state metropolitan nominal per capita income increased by 97.5 percent (to $31,264) whereas the average nonmetropolitan state per capita income increased by only 91.5 percent (to $24,635). The upshot? Many parts of rural America have lower incomes and are falling further behind. The growing gap between metro and nonmetro incomes has potentially important consequences for rural places. For instance, it is well documented that rural areas have higher average poverty rates, and that most persistently poor counties are located in rural areas (Economic Research Service 2004). At the same time, research shows that high poverty concentrations can seriously hinder local economic prospects. For some places, then, there is the very real prospect of the emergence of low-wage traps, with many rural areas potentially finding themselves in a situation where poor economic performance reinforces itself.

Compounding this effect is the continued out-migration of the brightest young workers from rural areas....the so-called “brain-drain.” Evidence from prior studies shows that nonmetro counties are experiencing a significant net out-migration of young, college-educated workers, who are believed to be moving to cities in search of better employment opportunities and cultural amenities (Brown 2002; Johnson 2003). As a result, there is a growing gap between the education attainment levels of metro and nonmetro areas, with metro areas having a significantly larger proportion of the labor force holding at least a bachelor’s degree, and nonmetro areas having a lower educated and less skilled population (Gibbs 2005; Johnson 2003; Lichter, McLaughlin and Cornwell 1995).

Population gains and losses due to migration transform a community’s social and economic structure (Brown 2002; Haller & Monk 1992), and it is not a stretch to suggest that there is a link between the divergence of metro and nonmetro per capita incomes and the migration of college educated workers to metro areas from the hinterland (Hammond and Thompson 2006). While the loss of this particular demographic cohort is not new, having long been lamented by rural development proponents, it is important to understand that the emergence of the “knowledge economy” may actually intensify the impacts of the brain drain on rural areas. This is due to the prospect that rural areas will be greatly disadvantaged in their efforts to compete in the new economy, where innovation and ideas are paramount (Wilkinson 1995).

Recognizing this dynamic, rural advocates have long sought ways to stem and even reverse the out-migration of the “best and brightest.” For example, some have advocated offering recruiting incentives to certain professionals, such as physicians, and others have sought to promote regional recreational oppor-
tunities and amenities. While these efforts have probably met with some success, their overall effectiveness is likely rather limited.

So, what should states do to help rural areas retain young, college educated workers? We suggest nothing, at least for those with bachelor’s degrees. Although rural areas might be more appealing to college educated workers further along their life cycle, we frankly have little reason to expect that rural communities will be able to adequately compete with urban and suburban areas for younger workers—especially those who have little attachment to place (ie, footloose)—for at least two reasons. First, college educated workers will earn more much more...in metropolitan areas than they will in nonmetro areas for similar jobs. If we have learned anything from the migration literature, it is that wage differences matter. Second, once an individual earns a 4-year degree, he or she effectively enters the national labor market. No longer does one face a relatively limited set of employment opportunities as defined by what is available locally. Rather, one now can search for work in every labor market in the United States. The 4-year degree opens up substantial opportunities. And, as the opportunity set grows, the likelihood of a migration is substantially enhanced. From a societal perspective, efforts to keep young, educated workers at “home” are clearly inefficient. If they really want to go, keeping them will likely require a rather substantial change in incentives. So, we say, wish them luck.2

Despite this rather stark position we are not writing off the importance of an educated labor force. Far from it. We believe that enhancing the human capital stock is the key to rural economic development in the United States. However, we also recognize that highly educated individuals are quite footloose. We suggest building the human capital stock of those young workers who are less likely to pick up stakes. Specifically, we call for a substantial increase in workforce development activities, especially focusing on the two-year community college and vocational training system. Our logic is straightforward.

First, the skills gained in pursuing a 2-year degree are going to be essential to help rural businesses remain competitive in a global economy. Consider manufacturing. If we look at occupational staffing patterns over time, we find that technological change, driven by the desire to reduce costs, has displaced millions of production workers across rural America. As a result, the demand for unskilled workers in manufactur...
from this type of initiative. According to the 2000 Census, for nonmetropolitan counties, more than 82 percent of the people aged 25-35 years old with a 2-year degree lived in the same county both years. By comparison, less than 75 percent of workers in this age category with a college degree lived in the same non-metro county both years. A recent Census Bureau report states: “Whether married or single, young people with a college education [bachelor’s degree] were more likely to move than those without a college degree” (Franklin 2003 p 3). This suggests that the issue of “brain drain” is not nearly as pressing for the 2-year degree cohort, a fact that should allay the commonly expressed concern that “why should we bother training them if they are just going to move?”

Three Policy Recommendations

While education decisions are certainly made at the individual level, there is a very real role for state government in growing the capabilities of the rural workforce. First, states should increase both specialty and critical thinking skills of their workforce by strengthening and expanding the network of community colleges in rural areas. In the knowledge economy, nearly all workers are taking on increasingly important roles in terms of troubleshooting and logistical planning. It is not necessary to get a 4-year degree for workers to obtain these skills, but some post-secondary education is often required. While some states have done a good job of building their rural community college networks, particularly in the south, others have short-changed this investment. For example, Pennsylvania has 14 community colleges, 13 of which are located in metro counties. Understanding that many communities are unable or unwilling to support such an initiative through property taxes (often the primary funding mechanism) states will likely have to make substantial investments in order to build an adequate system in rural areas.3 When expanding this system it is imperative that community colleges are attuned to both existing and emerging workforce needs and develop appropriate programs in partnership with the private sector.

Second, we recommend that state governments support local pre-employment training partnerships with industry. Research in Pennsylvania shows that many of the state’s employers would like to hire, but find the workforce lacks even the most basic skills and workplace attitude. One successful local program in the state has been spurred by a partnership between Penn State Cooperative Extension and local businesses, which together have developed a curriculum of basic workplace skills. In this program, participants must attend a series of classes where they learn basic worker and workplace skills. In return, businesses agree to give “completers” preferential consideration in hiring. Nearly all students who meet the requirements of the program are placed.

Third, we recommend supporting public/private training consortiums for targeted industry and occupation clusters. For many small businesses, the costs of training employees are prohibitively high, especially for small and rural businesses that may have only a handful of workers in each of several specialized positions. States should work with businesses in their targeted industry clusters to develop specialized training consortiums of small businesses.

Penn State and regional Workforce Investment Boards are pursuing such an initiative with the food processing sector, for example. In this initiative a number of the state’s small-scale food processors have come together to identify common training needs and put together a training program where a few employees from each business participate in common workforce education programs. To date, more than 500 workers from some 20 small and medium sized companies have received specialized training.

In summary, we believe that human capital investment is the key to the future economic viability of rural America. However, we recognize the extreme difficulties that rural places have in competing with metro areas for college educated workers. Instead of pursuing young, college educated workers, then, we advocate a rural economic development policy that emphasizes enhancing the skills and capabilities of those innovative workers that are less likely to move.

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3 Sarah Rubin and George Autry (1998) offer a good policy discussion of funding challenges and mechanisms for rural community colleges.
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Service, U.S. Department of Agriculture, November.


Rural Economic Development Prospects in a High Energy Cost Environment

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Summary

Rural America is a diverse landscape ranging from rapidly growing amenity rich communities to struggling resource-based towns and villages. A key feature is that rural population growth quickly tails off for rural communities more distant from urban centers. A long period of higher energy prices will put particular pressures on exurban and more remote rural communities that rely on urban commuting. The adverse effects will also be felt in resource-based communities. The combination of urban-centered rural growth and higher energy costs suggests the following:

• More regional planning mechanisms are needed to ensure rural areas participate in urban growth;
• The adverse effects of high energy costs in remote rural communities will need special policy supports including infrastructure investments and planning for (remote) rural to urban in-migration;
• Higher energy costs and mortgage rates will put pressures on exurban property values, leading to local property tax shortfalls that may force state intervention. Because past trends are likely unsustainable, future infrastructure planning should be based on realistic expectations of exurban growth;
• Higher energy costs will likely place strains on overcommitted exurban households, requiring workplace supports to ensure their financial viability.

Motivation

A persistent “urban legend” is that rural America is on its last legs in retaining population, but its plight is often exaggerated.\(^1\) Using Bureau of Economic Analysis data, nonmetropolitan America grew 8.9\% during the 1990s, or only 5 percentage points less than metropolitan America.\(^2\) In fact, amenity and recreation based rural areas are faring quite well in terms of population growth, which also holds for many rural counties located near urban centers, though they are wrestling with the adverse effects of sprawl. Yet, counties more distant from urban centers and farm/mining dependent counties have long struggled (predominately in the Great Plains). Thus, rural America presents a diverse picture. However, one overriding theme is that rural growth generally takes place in broad regions surrounding an urban center, suggesting that more rural communities need to participate in urban-led growth.

One wildcard is steadily rising energy prices since 2000. Though future energy costs are uncertain, growing demand in Asia and elsewhere suggests that energy prices will remain much higher than the 1990s. As evidence mounts, it is also increasingly difficult to dismiss global warming predictions. Policies to mitigate global warming generally require higher carbon

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1 Unless defined, rural and nonmetropolitan will be used interchangeably as well as urban and metropolitan.
2 Nonmetropolitan America grew 1.1\% between 2000-2003 compared to 3.4\% in metropolitan areas. More discussion of rural population growth can be found in the USDA Economic Research Service Briefing Note on Rural Population Change and Net Migration, which can be accessed at: http://www.ers.usda.gov/Briefing/Population/popchange/ and Rural America at a Glance, 2005, which can be accessed at http://www.ers.usda.gov/publications/EIB4/. Specific details of metropolitan and rural population using the latest metropolitan boundaries can be found at the Bureau of Economic Analysis, Regional Economic Information System website at http://bea.gov/bea/regional/reis/ (last accessed on December 9, 2005).
taxes, reinforcing the upward price trend. Higher energy costs are particularly worrisome for rural America because it relies more on the energy-intensive primary sector and long-work commutes. Even when allowing for potentially offsetting factors such as oil-shale, bio-fuel and wind-power production, it is hard to imagine that much of rural America will not lose more ground to urban areas as a result of high energy costs.

**Rural America and the Reality of Urban Led Growth**

The unmistakable reality of American economic geography is that outside of high amenity areas, rural population growth generally occurs in broad regions more proximate to urban centers (see Deller et al. 2001 for a discussion of amenity led growth). Table 1 illustrates this point. It shows 1990-2000 county population growth (weighted by 1990 population) for two “urban” groups: metropolitan and micropolitan areas. Also, four (non-urban) rural county groupings are defined based on distance from their nearest urban center: (1) less than 30kms (~19 miles), (2) 30-60kms, (3) 60-100kms, and (4) over 100kms, which is measured from the center of the county to the center of the nearest metropolitan/micropolitan area.

Row 1 shows that metro counties grew by 14.1% on average while micropolitan counties grew almost 10%. As a result of sprawl and exurban growth, rural counties within 30kms actually grew faster than micropolitan counties on average. Yet, rural population growth quickly tapers off further from an urban center. A typical rural county over 100kms (62 miles) from an urban center grew a notable 8.4 percentage points less than the typical metro county. The longer 1980-2000 period (not shown) exhibits an even stronger pattern in which the typical metro county grew 23 percentage points more than the typical rural county located over 100kms from an urban center.

Other regression analysis suggests that after controlling for a host of economic, amenity, demographic causes of population growth (including state effects), a rural county located 62 miles from its nearest urban center grew approximately 10 percentage points less during the 1990s than an otherwise equal rural county adjacent to the urban center (Partridge et al. 2006). Thus, even after accounting for these key factors, urban accessibility is of paramount importance for rural vitality. There are many reasons why access to an urban center matters, including: urban residents relocating for lower housing costs and rural workers having more urban-center commuting options (Partridge et al. forthcoming).

For exurban rural counties trying to manage/contain sprawl and rising congestion, a comprehensive regional approach that addresses zoning, transportation, environmental degradation, and economic development will greatly help in charting a sustainable future. Conversely, more remote rural communities often lack the critical mass to initiate economic growth. The good news is that rural areas share a significant amount of urban centered growth, in which urban growth can extend to rural areas up to about 100 miles—i.e., urban growth is not a zero sum game that “steals” from nearby rural communities (Henry et al. 1997; Khan et al. 2001; Partridge et al. forthcoming). Therefore, for rural counties/communities to fully benefit from these regional dynamics, they should be more closely aligned with their region’s urban center in terms of governance and planning.

The policy implication is that by linking with their city cousins, small rural communities can achieve a critical mass and participate in urban-led growth. Besides tighter governance arrangements, declining and remote rural communities should also support better transportation links to improve commuting options as well as seek to enhance accessibility to urban services and amenities that help retain rural population.

**High Energy Costs and Rural Development**

The post-1999 trend of rising energy costs suggests that more planning is needed to assess how the trend will affect location decisions, government finances, and public service delivery. One reason why virtually no related planning has occurred is that forecasts are difficult because there is so little experience with such high U.S. energy costs—i.e., out of sample forecasts are notoriously tricky. Yet, Canada provides a nice backdrop for this assessment. Despite having similar geography, settlement history, and institutional arrangements, Canada has long had significantly greater energy costs due to higher taxes. For example, during the 1990s, Canadian regular unleaded gasoline prices averaged 41% above the corresponding U.S. level (U.S. Energy Information Agency 2005), which would place more pressures on remote Canadian communities. Thus, even as there are many reasons for different set-

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3 Micropolitan areas are roughly defined as a county(ies) with a city of 10,000-50,000 population plus other counties with tight commuting links to the urban center. Metropolitan areas are defined as an urbanized population of at least 50,000 people and all counties with tight commuting links to the urban center. For details, see the U.S.D.A. Economic Research Service Briefing, *Measuring Rurality: New Definitions in 2003*, accessed at: http://www.ers.usda.gov/Briefing/Rurality/Newdefinitions/.
tlement patterns, Canada does offer some guidance as to whether rural communities suffer in a high energy cost environment.\(^4\)

Row 2 of Table 1 reports the corresponding 1990s population change for Canadian communities (see the notes in Table 1 for details). To facilitate the comparison, Row 3 shows the difference between U.S. and Canadian averages. One general pattern is that Canadian and U.S. trends are similar with the exception that the Canadian equivalent of micropolitan areas fared worse than their American counterparts.

On average, U.S. growth was about 3.4 percentage points faster than in Canada during the 1990s. The gap between the typical rural U.S. county and rural Canadian community was actually larger across all distance categories, indicating that rural Canada fared worse. Indeed, the Canadian equivalent to metropolitan areas grew an average of just 1.6 percentage points less than their American counterparts, but rural Canadian communities more than 100kms from an urban center grew fully 6.7 percentage points less than their American counterparts.\(^5\)

In sum, “high energy cost” rural Canada has fared worse than “low energy cost” rural America on average, while proximity to urban centers took on even more importance. Even more telling, regression analysis with controls for economic, demographic, province, and amenity effects finds that a rural Canadian community located 62 miles from the nearest urban center grew about 30 percentage points less during the 1990s than an otherwise equivalent community adjacent to the urban center (Partridge et al., forthcoming). Although many factors are at work, that is about triple the corresponding U.S. response. With Canada’s experience providing guidance, rural American communities will face severe adjustments, from sprawling exurban areas to struggling remote communities. The unwinding of the “low-energy cost” U.S. rural economy will likely be painful, certainly warranting much more policy attention.

**Policy Discussion**

Given the growth patterns of recent decades and the potential permanence of the high energy-cost environment, the following are implications U.S. policymakers would be advised to consider. First, regardless of the cost of energy, the unmistakable reality is that rural population is concentrating near urban centers, which suggests that state policymakers need to facilitate more regional governance mechanisms, perhaps through financial incentives, better infrastructure (traditional and broadband), and expanded local option taxes. That is, policymakers need to extend the reach of urban-led growth to ensure that more rural communities participate in this process.

Second, rising energy costs will not only hurt rural communities in general, but they will particularly harm more remote communities as commuting becomes prohibitively expensive and obtaining urban goods and services becomes more costly. Stronger regional governance arrangements are needed to bring rural stakeholders into this process with their urban cousins. Legislators should also consider what type of supports are needed to cushion the fall for remote communities and plan for the possible in-migration to their state’s urban centers (which will require more infrastructure and service delivery).

Third, along with rising mortgage rates, more expensive exurban commutes will likely put downward pressure on exurban housing prices and population growth as fewer people choose to move to exurbia. To some extent, current exurban house prices are predicated on the expectation of continued population inflows. Offsetting this possibility is that firms will relocate to exurbia to be near their workforce. However, it is unclear whether this would happen as there are already clear agglomeration reasons that are keeping these firms more centrally located in urban centers, while higher transportation costs for inputs and outputs would also likely reduce any urge to locate in exurbia. A bursting of exurban housing prices would present two planning challenges. First, legislators may need to help bridge exurban property tax shortfalls for schools and local government services. Second, new trends would mean that legislators should be especially wary of funding additional infrastructure in outlying suburbs and exurban communities, in which population-growth projections should be questioned unless they incorporate the effects of higher energy costs.

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\(^4\) Though regional scientists would expect that transportation costs differences to be a key cause for differential growth patterns that depend on proximity to urban center, there could be other reasons for differences in how urban proximity affects rural population growth in Canada and the U.S. To be sure, there are many reasons for Canadian settlement patterns to differ from the U.S. including climate, land use, crop patterns, and historic policy. Yet, we expect that these would have more impact on population density than population growth, though caution should be exercised when comparing Canadian population growth to the U.S. In this fashion, our differing methodology used below should mitigate the impacts of these distinctions.

\(^5\) The gap is even wider when considering both the 1980s and 1990s. Population in Canadian metropolitan areas grew 3.3% faster than their U.S. counterparts over the 20 year spell, but for rural counties/communities greater 100km from an urban center, U.S. counties grew almost 8% faster than their Canadian counterparts.
Table 1: 1990s Urban and Rural U.S. and Canadian Population Growth (Std Dev)

<table>
<thead>
<tr>
<th></th>
<th>All Cty</th>
<th>Metro Cty (Urban)</th>
<th>Micro Cty (Urban)</th>
<th>Rural &lt;=30km to Urban</th>
<th>Rural 30-60km to Urban</th>
<th>Rural 60km—100km to Urban</th>
<th>Rural Over 100km to Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S.</strong></td>
<td>13.2%</td>
<td>14.1%</td>
<td>9.9%</td>
<td>11.4%</td>
<td>8.0%</td>
<td>6.4%</td>
<td>5.7%</td>
</tr>
<tr>
<td></td>
<td>(14.1)</td>
<td>(14.4)</td>
<td>(12.1)</td>
<td>(11.5)</td>
<td>(11.2)</td>
<td>(13.5)</td>
<td>(14.6)</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>9.8%</td>
<td>12.5%</td>
<td>3.4%</td>
<td>7.2%</td>
<td>3.8%</td>
<td>1.0%</td>
<td>-1.0%</td>
</tr>
<tr>
<td></td>
<td>(14.3)</td>
<td>(13.9)</td>
<td>(10.0)</td>
<td>(12.2)</td>
<td>(13.4)</td>
<td>(15.1)</td>
<td>(14.2)</td>
</tr>
<tr>
<td><strong>U.S.-Canada</strong></td>
<td>3.4%</td>
<td>1.6%</td>
<td>6.5%</td>
<td>4.2%</td>
<td>4.2%</td>
<td>5.4%</td>
<td>6.7%</td>
</tr>
<tr>
<td><strong>U.S. N=</strong></td>
<td>3,072</td>
<td>1,061</td>
<td>679</td>
<td>88</td>
<td>753</td>
<td>346</td>
<td>145</td>
</tr>
<tr>
<td><strong>Canada N=</strong></td>
<td>2,376</td>
<td>364</td>
<td>142</td>
<td>512</td>
<td>637</td>
<td>458</td>
<td>263</td>
</tr>
</tbody>
</table>

Notes: U.S. 1990 and 2000 Census population figures are from U.S. Department of Commerce, REIS. See Partridge and Rickman (2006) for more discussion of the derivation of the U.S. data. Canadian 1991 and 2001 Census data are from Statistics Canada. See Partridge et al. (forthcoming) for more details. All 10 year growth figures are weighted by initial year population (1990 or 1991). U.S. distances are calculated from the population weighted centroid of the county to the population-weighted centroid of the nearest metropolitan or micropolitan area using 2003 metropolitan/micropolitan definitions. Canadian distances are calculated from the rural community’s geographic centroid to the Census Metropolitan Area/Census Agglomeration (CMA/CA) geographic centroid using 1996 boundaries. CMAs and CAs are Statistics Canada’s respective equivalents to a U.S. metropolitan or micropolitan area in which the unit of observation is a Census Consolidated Subdivision (roughly a community). A CA has an urban population center of 10,000-99,000 people. To ease comparison to the U.S., the CA sample was split into CA’s with less than and more than 50,000 people. Rural is defined as U.S. counties or Canadian Consolidated Census Subdivisions outside of a metropolitan or micropolitan area (or outside of a CMA/CA). Row 3 is the difference between the U.S. and Canadian figures.

Finally, higher energy costs and the resulting spillovers will likely place great strains on already financially overcommitted exurban households trying to make mortgage payments and pay commuting costs. Similar pressures will be faced by the poor and lower-middle class households trying to adjust to declining conditions in remote rural communities. Workplace supports such as daycare and commuting assistance may be necessary to help bridge the short-term gap. For instance, innovative solutions that incorporate exurban and rural public transport may be required. Long-term policies may need to resort to relocation assistance as current rural commuting patterns may be unsustainable in this energy-cost environment and rural communities fall below key population thresholds to retain services.

This analysis indicates that much of rural America may undergo a very difficult period if energy prices continue their upward trajectory. Indeed, given the severity of the possible restructuring, it is quite surprising how little forethought has gone towards this issue. Hopefully, this essay stimulates more discussion.

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Rural Poverty: Why Should States Care and What Can State Policy Do?

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Poverty is not evenly distributed across the American landscape. At the county level of aggregation, poverty is overwhelmingly a rural problem, with the most remote rural places at the greatest disadvantage.1 Although research has shown that “place matters” in poverty outcomes and policy impacts, most antipoverty policy in the U.S. is essentially place-blind, not considering how differences among places in economic or social conditions might affect policy outcomes. This paper makes the case that state policy should give renewed attention to locality-based job creation and community capacity building, while maintaining and expanding policy innovations that make work pay, provide work supports and build worker productivity.

Rural Poverty

Two stylized facts characterize how U.S. county-level poverty is a rural problem.2 First, county-level poverty rates in 1999 are lowest in the suburbs (the fringe counties of large metropolitan areas) and increase as counties become more rural, with the highest poverty rates in remote rural areas (nonmetropolitan counties not adjacent to metropolitan areas; see Figure 1).

Second, persistent poverty is disproportionately found in rural areas. Almost one in eight counties had persistent poverty, defined as poverty rates of 20 percent or more in each decennial census between 1960 and 2000. These persistent-poverty counties are predominantly rural, with 95 percent being nonmetro. Further, persistent poverty status is more prevalent among less populated and more remote counties. While less than 7 percent of nonmetro counties adjacent to large metropolitan areas are persistent poverty counties, almost 20 percent of completely rural counties not adjacent to metropolitan areas are persistent poverty counties (see Figure 2).

High poverty rural counties tend to have distinctive concentrations of racial/ethnic minorities. “Virtually all (94 percent) of these counties reflect historic geographic concentrations of minority [black, Hispanic, Native American] or Southern Highlands populations” (Beale, 2004, p.27.) According to Jensen et al. (2003, p. 124), “a defining characteristic of rural minority poverty is its clustering in places proximate to areas like the Delta, the four corners region in the

Figure 1. Poverty rates along the rural-urban continuum (US Census Bureau and USDA ERS).

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1 At the tract level, the highest poverty rates are found in urban cores and remote rural areas.
2 This section of the paper draws heavily on Miller and Weber (2004).
Southwest and American Indian reservations, in which these groups were subjugated historically.”

Figure 2. Percent of counties in each Urban Influence Code in Persistent Poverty (US Census Bureau and USDA ERS).

Local Context

Much has been learned during the past decade about how “place” affects poverty and the impact of federal and state policies on employment and poverty.3 Two findings are of particular importance as states try to define their potential role in poverty reduction. First, local economic conditions matter. Local job growth appears to have poverty reducing effects, particularly in high poverty census tracts (Crandall and Weber, 2004) and persistent poverty counties (Partridge and Rickman, 2005). But work and work effort are generally less effective in moving people out of poverty in rural places (McLaughlin and Jensen, 1993; Brown and Hirschl, 1995; Lichter, Johnston, and McLaughlin, 1994). Cotter (2002) found that labor market conditions account for half the difference in poverty odds between rural and urban places. Second, social capital matters. Communities with higher social capital—greater civic participation and organizational membership—saw greater poverty reduction in the 1990s (Rupasingha and Goetz, 2003). Increased social capital reduces poverty most in high-poverty tracts (Crandall and Weber, 2004).

These two findings highlight the particular importance for poverty reduction of improving local job opportunities and institutions.

Why State and Local Policy is Important

There are at least two reasons why state and local policy has become increasingly critical in the nation’s attempt to reduce poverty, and two additional reasons why state and local policy should target rural areas. First, social policy is devolving from the Federal to state and local governments. The 1996 welfare reform law gave states block grants with much more discretion in lowering barriers to work (e.g., increasing income disregards in calculating benefits) and increasing asset limits (Gais and Weaver, 2002). Many states have also taken the initiative in increasing state earned income tax credits (Berube, 2005). Local human service systems, furthermore, have re-engineered themselves, streamlining program entry and working to ensure continuity of coverage in Food Stamps and Medicaid for those leaving welfare (Fossett et al., 2002).

Second, the success of antipoverty policy depends on local job opportunities and the effectiveness of local intermediaries and social networks, which can be influenced by state/local policy. Antipoverty policy over the past two decades has become more work-related. The nation’s major welfare program—Temporary Assistance to Needy Families—was redesigned in 1996 to provide incentives for working and sanctions for not working (Moffitt, 2003). Most public spending on means-tested transfer programs, eligibility for which is conditioned on having low income, is for in-kind medical and food security programs, work-related tax credits, and work-related support services (e.g., child care subsidies, job training), not cash welfare payments (Moffit, 2003, p. 7). This policy shift recognizes that most poverty is “working poverty”. Blank (1997, p. 31) reports that most (63 percent) of poor households had at least one worker, and single mothers worked somewhat more than they did twenty years previously. The policy shift also recognizes that work can be a major route for exit from poverty.

Local context becomes increasingly important in a work-oriented antipoverty strategy. The success of unemployed poor adults in getting jobs has been shown to depend on local labor market conditions (Davis et al., 2003), and communities with higher levels of social capital, other things equal, experienced greater declines in poverty during the 1990s (Rupasingha and Goetz, 2003).

Bartik has shown that “state and local policies can have large effects on local growth, and local growth has important long-run effects on individuals’ job prospects” (1991, p.207). And Flora and Flora (2003) have argued that states play a key role in the development of local social capital through decisions about

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3 The section of the paper draws from Weber et al. (2005)
state funding, building use and local administrative flexibility.

There are two additional reasons to focus this effort to provide economic opportunity and strengthen institutions in rural areas. First, as noted above, poverty is more prevalent in rural than urban areas. Second, social policy appears to face additional barriers to effectiveness in rural areas. In a study of the effect of the social policy changes of the 1990’s on employment and poverty among rural and urban female-headed households, Weber et al. (2004) concluded that “rural and urban areas differ in personal characteristics of the population, local labor market conditions, work barriers, or availability of services [in ways] that make it more difficult for the social policy changes to move single mothers in rural areas into employment and out of poverty” (p. 48).

**State Strategies**

There are five broad strategies and associated policies that states might pursue in reducing poverty, particularly in rural areas:

**Support locality-based economic development.** Meckstroth et al. (2003) suggest that “wage subsidies, tax credits and low-income loans to employers are incentives that … policymakers might consider for disadvantaged rural areas. Such tools can act as incentives for employers to expand their business, create new jobs, hire low- and semiskilled workers and offer services like on-site child care and van shuttles” (p. xxv). Jensen (2006) argues for regional cooperation and for including “poverty and underdevelopment among explicit criteria to retarget economic development funds to places most in need.”

**Build community capacity and institutions.** Jensen (2006) suggests that policies to reduce poverty focus on “establishing the right conditions for new industry clusters to emerge.” Among the key conditions are “institutions that champion knowledge creation, a business culture that supports entrepreneurship… [and] institutions of higher education (such as rural community colleges and land-grant universities).” The evidence from workforce development evaluations suggests that institutional collaborations—for example, the participation of business and community colleges in workforce investment initiatives—can improve employment outcomes for low-income workers (Hamilton, 2002).

In their recent collection of studies on the low-wage U.S. workforce, Appelbaum et al. highlight the critical role played by government and regional labor market institutions such as training consortia, multi-employer agreements to establish strong job quality and productivity norms, and interfirm cooperation to set industry standards, as attempts to improve the prospects for workers without college degrees. They argue that the growth of such labor market institutions “cannot happen without a conscious decision by government to create the conditions that nurture high-performance work organizations” (Appelbaum et al. 2003, p. 25).

**Make work pay.** The important changes in social policy in the 1990’s—the expansion of federal and state Earned Income Tax Credits, welfare reform, minimum wage increases, and the expansion of Medicaid and child care subsidies—all focus on making work pay. Of particular importance has been the expansion of Earned Income Tax Credit (EITC), which disproportionately benefits rural areas. States can enhance these policies. At least 14 states have created state earned income tax credits that supplement the federal EITC, and 27 provide some type of child and dependent care credit (Berube, 2005).

**Increase work supports.** Access to reliable transportation and high-quality child care are critical to successful labor market outcomes of low income adults. “Public van services, low-cost car loans, and good-quality, accessible care during nonstandard work hours may be particularly vital in rural areas with limited resources” (Meckstroth et al., 2003, p. xxv).

**Enhance worker productivity.** Public education and workforce development have been shown to have important beneficial effects on earning capacity. In their review of the policy evaluations of workforce development of low-income workers, Holzer and Martinson conclude that “[e]ducation and training job training are most successful when they provide workers with credentials that employers recognize, such as associate degrees, and when the training provides skills that match private-sector demands in the local labor market” (2006, p. 36).

There do not appear to be any silver bullets for reducing poverty. There is a need for flexibility and creativity in policy design tailored to particular opportunities and challenges for individual states and localities. Holzer and Martinson found that “[p]rograms based on mixed strategies—including training, various supports and services, financial incentives, and better access to employers—have worked well, especially in an environment where the pressure to get a job is strong” (2006, p. 36). Furthermore, implementation issues are a key to success of antipoverty policy. One of the lessons from the evaluation of the Rural Welfare-to-Work program was that skilled staff, careful training and administrative oversight and perform-
ance incentives may be particularly important for successful implementation of policies to reduce poverty in rural places (Meckstroth et al., 2006).

Conclusion

The current policy environment emphasizes strategies that invest in people and provide incentives for people to work over strategies that invest in places. However, the realities of poverty—that most poor adults work—and policy—that antipoverty policy is becoming more work-oriented, community-context-dependent, and tailored to community needs by local governments and nongovernmental intermediaries—make state efforts to strengthen local economic opportunity and local institutions increasingly important in poverty reduction efforts. The higher incidence of poverty in rural America and the evidence that current antipoverty policies are less effective in rural areas give added urgency to the task of crafting community-based policies that strengthen economic opportunity, local institutions, work supports and worker productivity in rural places.

Acknowledgement

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Mitigating Impacts of Big Box Retail on Local Communities

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Large discount retail stores (or “big box” stores) generate both costs and benefits to local communities that are unevenly distributed across local employees, shoppers, other businesses and government. While these impacts affect communities across the urban-rural spectrum, the hardest hit communities are often rural towns that struggle to retain a mainstreet retail base. States can mitigate many of the negative impacts on local communities by implementing sound planning, zoning and design standards that strengthen local priorities and provide a means for assessing the infrastructure, environmental and fiscal impacts of large retail development.

Who Benefits and Who Loses?

Consumers benefit the most from big box retail through substantially lower prices. For example, Wal-Mart’s food prices are estimated to be anywhere from 8-27% lower than large supermarket chains for an identical market basket across different U.S. metropolitan areas (Hausman and Liebtag, 2005). The direct savings to customers that shop at these large retail stores as well as the indirect savings to all local consumers due to competition that reduces prices at other stores are substantial. Hausman and Liebtag (2005) estimate that these two effects combined generate a reduction in the average household’s food expenditures by 25 percent when a supercenter food retailer locates in a community.

On the other hand, big box retail imposes costs on local workers and other businesses. For example, Neumark et al. (2005) find that retail wages at the county level decline by about 7.5% as a result of the opening of a Wal-Mart store. Competition from big box retailers forces some existing retailers out of business. Neumark et al. (2005) find that Wal-Mart entry reduces average retail employment at a county level by about 180-270 workers; this translates into each Wal-Mart worker displacing about 1.5 to 1.75 other retail workers. On the other hand, Basker (2005) finds that five years after a Wal-Mart store’s entry, there is a modest increase in county retail employment of about 50 retail jobs. However, many of the new jobs associated with supercenters displace existing jobs with small retailers. Five years after Wal-Mart’s entry in a local community, an average of four small retailers are displaced (Basker, 2005). Thus, a zero-sum game frequently prevails: a new entrant (such as a new big box retailer) captures sales from existing businesses rather from a growing market (Stone, 1991).

Other impacts of big box retail on communities are mixed. While big box retail may generate additional tax revenues, traffic congestion and additional land development can saddle the local jurisdiction with higher infrastructure costs. In a 2002 study of the Town of Barnstable, Massachusetts, the net costs to the community of big box retail was $468/10,000 square feet (Tischler & Associates, Inc. 2002), costs driven largely by the increase in daily car trips. Other impacts on communities are less tangible, such as the loss of local ownership and a community’s sense of place. Finally, to the extent that higher quality retail jobs are displaced by lower quality ones, local communities are faced with the potential of increased poverty and increased expenditures on public assistance. Some evidence supports this claim. For example, Goetz and Swaminathan (2004) find that the opening of a new Wal-Mart store increases the average poverty rate in a county by 0.2 percent.

States’ Role - Planning & Plan Enforcement

To mitigate infrastructure, aesthetic, environmental and other costs, some local communities have attempted to fight the opening of new big box retail
stores, but few have been successful in keeping them out permanently. In communities without big box retail, the opportunity costs of keeping out these supercenters are high: consumers must forgo the benefits of substantially lower priced products. On the other hand, communities that already have several big box retailers are unlikely to experience further reductions in consumer prices and are likely to suffer many of the costs.

In light of these considerations, the most important action for communities is to develop comprehensive plans that explicitly address big box retail by identifying locations that maximize existing infrastructure investments and that generate the greatest net benefits for the community. Comprehensive plans should explicitly address large retail development by identifying locations that maximize existing infrastructure and potential attraction effects and that minimize land impacts and traffic congestion. For example, the City of Hailey, Idaho’s 2000 comprehensive plan clearly specifies community goals and implementation procedures that anticipate new retail development. These goals promote the health of the existing downtown (a defined, walk-able business core) and fiscally responsible use of existing infrastructure (City of Hailey, Idaho, 2000). St. Petersburg, Florida dictates concurrences for public services (St. Petersburg, Florida, 2005), where concurrency is defined as having the “necessary public facilities and services to maintain the adopted level of service standards that are available when the impacts of development occur (page GID-20).” Zoning and site design can dictate the placement of public services (water, sewer, roads) and standards can be instituted that achieve local goals for aesthetics and other development priorities. The zoning ordinance can require adherence to the comprehensive plan, cap the size of retail structures (Easton, Maryland, 2006), or require that any new development over a certain size meet minimum standards so as to not adversely impact the community (Greenfield, Massachusetts, 2006). Design and site standards can be enforced that promote reuse of vacant retail structures, such as the reuse of a former three-story Macy’s department store in Baldwin Mills, California by Wal-Mart.

While planning and plan enforcement is initiated locally, states can play an important role. Foremost, the state can provide minimum sound planning, zoning and design standards dealing with large retail developments that strengthen local priorities and provide a means for assessing the infrastructure, environmental and fiscal impacts of large retail development. Many communities are apprehensive to institute these standards on their own and many do not have the resources to development them. The state can establish a framework that provides a common set of standards with built-in flexibility to address local needs. In addition, state laws can support communities by designating large developments as conditional uses and requiring a comprehensive economic and community impact review of any new retail construction that is over a certain footprint.

Regulate Employer-Provided Benefits?

In response to claims that employees of large discount retailers like Wal-Mart disproportionately rely on public assistance programs, some states are considering various forms of legislation aimed at requiring large employers to increase their employee health care benefits. The first state to legislate this was Maryland, which passed a bill in January 2006 that requires private companies with more than 10,000 employees in Maryland to spend at least eight percent of their payroll on employee health benefits or make a contribution to the state’s insurance program for the poor. Wal-Mart, which employs about 17,000 Maryland residents, is the only known company of such size that does not meet that spending requirement (Wagner, 2006). The rationale for such a regulation is both philosophical—that firms should pay employees a “living wage”—and practical, since low-wage households that are not earning enough to cover basic needs may place greater demands on states’ public health care and other assistance programs. However, that conclusion depends critically on whether large retailers such as Wal-Mart are imposing an additional social burden by displacing higher quality retail jobs versus lessening the social burden by providing employment to workers that otherwise would be unemployed. While some evidence indicates that the presence of a Wal-Mart increases poverty rates (Goetz and Swaminathan, 2004), there is not sufficient research to definitely answer this question and the answer may differ across local communities. In addition, even if the net impact of low-quality jobs is to increase the burden on public programs, a law that would impose increased labor costs is likely to have economic consequences and thus the potential economic costs must be weighed against the potential gains. These costs include the potential employment losses and higher retail prices that may ensue. Specifically:

- Faced with higher labor costs, a profit-maximizing firm will seek to shed labor and substitute with capital or other inputs that will make labor more productive. However, reductions in employment may be small if firms’ demand for low-wage
workers is inelastic, meaning that increases in labor costs do not cause much, if any, change in firms’ demand for labor.\footnote{Recent evidence supports this point; Card and Krueger (1995) show that modest increases in state minimum wage levels in recent decades has not induced large employment losses.} In the case of big box retailers, their demand for workers may be relatively inelastic given that their workforce is already highly productive and additional reductions in staffing or gains in labor productivity may be difficult. In addition, with the rapid growth of supercenter stores such as Wal-Mart, the increasing demand for workers in local communities is likely to offset any potential employment losses from higher labor costs.

- The passage of such laws by some states may exacerbate differences in labor costs across states and thus compel some firms to relocate to low cost states. However, the local market base on which bricks-and-mortar retailers such as Wal-Mart rely makes large-scale migration unlikely. Retail stores such as these have to be within close proximity of their customers to sell their products. While some leakage of stores around high cost state borders may occur, this is unlikely to have a large effect on overall retail employment and sales at a state level.

- Regulations that force firms to absorb higher labor costs may result in these costs being passed on to consumers (Card and Krueger, 1994). Whether this would be the case for a large retailer, if forced to provide more employees benefits, depends on the magnitude of the cost increases and whether competitors would also be faced with these additional costs.

If lawmakers consider legislation to regulate employer-provided benefits, they should first commission a careful analysis of whether the presence of low-quality jobs associated with retail supercenters is adding to or lessening the burden on local and state public programs. Such an analysis would take into account the employment status of workers with and without the presence of the large retailer in the community and the potential losses of existing retail jobs that result from the large retailer’s entry. They should also consider the extent to which increased benefits for workers for large retailers would meaningfully reduce the overall demand for public programs versus induce additional costs in terms of employment loss or higher consumer prices. Finally, in designing such a law, the mandated increases in labor cost should be modest to avoid substantial economic costs and careful consideration should be given to how “large” a large firm must be before it is subject to such regulation.

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State-level Rural Health Policy

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Introduction

Most discussions of rural health policy overlook the key role that states play in crafting and delivering programs that directly affect the access, cost, or quality of health services to rural residents. However, policies such as regulations embodied in medical practice acts, education programs, and funding for local public health programs are the subject of debate in state capitals. Moreover, the current climate of devolution and block grants serves to increase the state government role in shaping the effectiveness of rural health programs. Despite the lack of discussion of the state role by rural health researchers, state governments play a vital role in rural health. This paper provides state-level policy makers with an overview of the key issues in rural health and principles for developing policies and programs in this area. Furthermore, this paper argues that states should adopt a “rural lens” in health policy formulation. That is, states should explicitly account for the differences in medical geography of their rural areas when crafting and implementing health policy. Additionally, this paper suggests scrutiny of current rural health policies so that significant rural people (the intended beneficiaries) do not lose benefits from the policies through rent-seeking behaviors of powerful interests in the health care arena on the provider side (physicians, hospitals, medical schools).

Rural health policy discussions focus on access, cost, and quality of care issues. Access issues refer to a number of barriers that consumers and communities face in obtaining health care, including the relative lack of specialist physicians in rural areas, as well as individual-level variables (for example, income and health insurance coverage) that ration care or make it more difficult for people to obtain appropriate health care. The average rural county in 1998 had 2.4 times the population per physician as the average urban county, where urban is defined as counties in a metropolitan area (Area Resource File, 2000).

In the case of medical specialists the gap increases: the ratio of population per obstetrics-gynecologist in rural areas is three times that of urban areas; the ratio of population per psychiatrist in rural areas is 3.6 times that of urban areas (Area Resource File, 2000). Cost issues include not only the high costs that consumers face in purchasing health care services, but also the unique costs that arise from delivering health services in areas with a low population density. Those costs include the cost of maintaining emergency room availability spread over a relatively small served population and the cost of travel effort for rural residents to obtain care in urban centers. Quality issues also arise because of the limited number of specialists in rural areas and because for many medical procedures, quality is a function of volume, such as the number of illnesses treated or surgeries performed. On average, rural residents display poorer health status relative to their urban counterparts, and their access to care is generally poorer than that of urban residents (Braden and Beauregard, 1994).

States should implement policies to improve rural health care for several reasons. First, many voters accept the economic concept of a merit good, which in the theory of public finance introduces an ethical dimension into economic thought (Musgrave 1959). The concept of a merit good contradicts the Pareto optimum principle, but does allow the government to take action in the economic domain to provide goods even when their provision is unwarranted because the absence of a market failure. Since many voters support the concepts of adequate health care and education as merit goods, public policies often respond to these concerns. Secondly, rural health warrants specific attention because the medical geography of rural areas differs sharply from that of more urbanized areas. Given that policies are implemented to ensure ade-
quate access to health care for residents in general, if attention is not paid to the interaction of the program or policy design with the regional geography, distinct inequities in access or program performance may result. Third, states have a natural responsibility in the area of rural health because of their subsidiary role in the federal public finance system, which relies on states for delivery and promotes state-specific program implementation of key policies (e.g. Medicaid). In addition, states have an undisputed role in areas such as education (including higher education and workforce development) and professional licensure. Given the importance of education, workforce development, and practice acts for rural health, they also make natural domains for state-level rural health policy.

State Policies and Programs

A broad set of state policies affect rural health care. State policies and regulations that define public health programs, medical professional practice, Medicaid payments, and the education of health care professionals all play a role in rural health. In addition to the state-level Offices of Rural Health, many states have specific rural health policies and programs, including state-funded efforts to attract and retain medical professionals to rural areas, grants for the development of rural health clinics, programs to train medical doctors and other health professionals, health information and monitoring efforts, and programs of research and analysis.

The first types of state policies affecting rural health, with perhaps the greatest impact, are those health and medical policies that lack a specific rural emphasis. Such policies include Medicaid reimbursements and professional licensure and practice acts. They often display a differential impact in rural areas because “one size doesn’t fit all” in the context of implementing policy. Consider the example of Medicaid reimbursements for oral health services, where presumably the objective of the program is to provide dental services to Medicaid program participants. In Illinois, the Medicaid program pays dentists a set fee for a given procedure. The reimbursement rate provides dentists with about 50-60 percent of their usual and customary charges, and most dentists do not participate in seeing Medicaid patients. However, there is strong evidence that rural dentists face greater excess demand than do dentists in the metropolitan areas of the state. Byck (2001) reports that the ratio of population per dentist is greatest in rural Illinois (3,162 people per dentist), lower in metropolitan Illinois counties excluding Cook County (1,643 people per dentist), and lowest in Cook County, Illinois (1,548 people per dentist). The fixed reimbursement schedule does not factor in differing market conditions across rural and urban areas, leading to the outcome that relative to urban Medicaid participants, rural Medicaid patients have a more difficult time seeing a participating dentist.

Other state-level health policies similarly tend to ignore the variation in markets across the state. Improving state health policy for rural residents requires addressing the realities of rural health in public health and medical legislation. Some of the other areas for state-level attention include: 1) licensure and practice acts and the extent to which they constrain the ability of mid-level practitioners (i.e., physician’s assistants) to extend a physician’s practice to a remote site without supervision on-site; 2) state licensure as a competitive barrier to telemedicine advances (for example, in some states only a physician licensed by that state can treat a citizen in that state); 3) examining whether state regulations limit the ability of rural hospitals to form cost-saving agreements with each other; 4) evaluating whether Certificate of Need legislation that requires health care institutions to receive state approval before making significant capital investments is a barrier to competition; 5) consideration of whether state-level public health information systems include sufficient information to make area estimates for rural parts of the state, as well as whether they survey providers in the license renewal process to obtain information that can be used to estimate access to health care; 6) state mandates for providers to see Medicaid or other patients facing access barriers; 7) state regulation of health insurers and whether or not medical underwriting is permitted; and, 8) state policies to reduce the number of people without health insurance.

The second type of state-level rural health policy includes those policies and programs created to address specific rural health needs. Provider recruitment and retention programs top the list as the most common state-level policies and programs designed to support rural health care and improve access (Slifkin, 1999). While physician recruitment and retention programs garner the most attention, there are programs for other health care professionals as well, including dentists, mental health professionals, physician assistants, and nurses. State policies and programs aimed at provider recruitment and retention range from changes in the graduate medical education so that primary care in rural areas receives emphasis to scholarships and loan repayment programs for rural providers. Other state programs include subsidies for rural providers in the form of income tax credits, malpractice premium subsidies, and state programs that
offer professional support (locum tenens programs) so that rural providers can obtain continuing education or personal time away from a practice.

Despite their popularity as a policy response to the relatively low population to physician ratios seen in rural areas, researchers disagree about the effectiveness of these recruitment and retention programs. In a review of experiential rural training programs for medical residents, Rosenthal (2000) reports that graduates of these programs practice in rural areas with much greater likelihood than the average family medicine resident, and that the graduates report that they are well trained for rural practice. The educational argument for specialized rural training programs rests upon their ability to nurture the specific “skills, knowledge, and values of rural practice” (Rosenthal, 2000). However, to my knowledge, no cost-benefit analyses exist for these programs and there is some economic evidence that they may simply result in the displacement of providers that would otherwise serve rural areas.

A series of studies of the locational distribution of physicians raises some doubts about the extent of the physician access problem in rural America and whether government intervention will effectively redress the perceived imbalance. Newhouse and his colleagues (Newhouse, et al., 1982a; Newhouse, et al., 1982b; Schwartz, et al., 1980; Newhouse, 1990) present empirical evidence supporting the view that the geographic distribution of physicians follows a process predicted by standard locational choice theory. As the supply of board-certified physicians increased from 1960 to 1977, the location pattern of specialists became more diffuse geographically (Schwartz, et al., 1980). Moreover, as theory predicts, as the supply of specialists increased, smaller communities experienced a greater increase in specialists per person than did larger communities. In the absence of an externality, a program that places a physician in a town that he or she would not have located in otherwise exacts a loss of efficiency. The efficiency loss occurs since the physician is less busy in the placed location than he or she would have been in the market-determined location. The geographic analyses also raise the issue of the potential for physician recruitment programs to displace other physicians and for the need to focus on the characteristics of the residents and their places that make it difficult for residents to obtain care. However, since an equity issue is involved here (equity can be interpreted as a merit good or a type of consumption externality), a second question arises: namely, whether or not these recruitment and retention programs provide equitable access for rural residents efficiently.

How to Do It Right

For states to promote access to health care services in their rural areas, they first need to bring a specific “rural lens” to the development and implementation of health policy initiatives. To understand whether a functioning rural health policy is in place, we can look within the State Department of Public Health and then examine the role and capacity of the Office of Rural Health. Does such an office exist? What is its mission? Does it have staff commensurate with its responsibility? Does it routinely provide input into new program initiatives, ranging from covering the uninsured or to health care workforce development initiatives? If the answer to these questions demonstrates a weakness, then the first policy priority should be to strengthen and enable this office so there is an effective voice for rural health in state government. Beyond the Department of Public Health, a voice for rural health needs to be present at a number of forums including any advisory groups to the governor on rural affairs, workforce development agencies, and in the education policy area (especially higher education).

Many state-level health policies do not take into account the differences between rural and metropolitan areas and how those differences might affect policy implementation. That can lead to differences in policy outcomes between urban and rural areas because “one size does not fit all.” Most rural areas would benefit if their state policymakers had a greater appreciation for the unique issues facing rural health as states craft public health and medical programs and policies. Bringing a “rural lens” to the development and implementation phases of these policies and programs would go a long way towards meeting the need for flexibility in designs so that rural people can best improve their access to health care resources.

Secondly, states need to examine their current rural health policies for a provider bias. Most of the current approaches to improving access to health care in rural areas invest heavily in the education and attraction of health professionals, yet the extent to which the programs are involved in health care labor markets is not often acknowledged. The danger with the current approach is that it introduces a possible significant economic inefficiency if limited health resources are channeled into programs and policies that are targeted at powerful health professionals (through grants to medical schools or education grants to physicians) rather than to communities and rural people. A greater understanding and appreciation of the nature of markets in rural health (including hospital markets, health care labor markets, etc.) might generate less distortionary and more efficient policy approaches.
that still meet the access objectives. Furthermore, be-
yond fairly crude designations of geographic areas of
need, there is presently little subtlety in the targeting
of these programs. States might conduct more strin-
gent evaluation and cost-effectiveness studies to high-
light the most efficient means of improving access in
rural areas. Also, to avoid the inefficiencies that can
arise with poorly targeted programs directed at pro-
viders, states should focus more attention on alterna-
tives that deal directly with rural consumers and
communities.

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Roles for State Government in International Trade

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Foreign markets can provide new economic opportunities for agricultural producers. However, the costs of accessing those markets are beyond the capacity of many independent agents, while the benefits are probably too narrow to suggest a federal role. Because of environmental and historical differences, states have particular interests in specific commodities (e.g., Washington’s apples, Florida’s oranges, and Wisconsin’s cheese). Thus, when independent agents lack capacity due to their small scale, it falls to the state to provide market research, technical support, and promotional activities to establish its producers in a foreign market. While the costs of such services are probably not warranted from the perspective of a single producer, they may be negligible compared to the long term gains to that state economy from dynamic trade relations.

As incomes rise, the percentage of income spent on food, in aggregate, declines. This relationship, known as Engel’s Law, is possibly the most consistent economic pattern ever observed. A second common pattern in food consumption—Bennett’s Law—holds that as incomes rise the share of “starchy staples” in the diet declines (Bennett, 1941). Together, these relationships explain many of the past transitions and current challenges in rural America. They also point to strategies for coping with economic stress in rural communities.

Over the last 50 years, the U.S. economy has evolved in keeping with Engel’s Law. In 1950, total disposable income in the U.S. came to about $190 billion and 20 percent of that total was spent on food. By 1996, disposable had risen to $5,588 billion, while the share spent on food had fallen to 10 percent. With food and agriculture receiving a smaller and smaller share of total national income, it is not surprising that populations moved out of rural areas, that many rural areas were urbanized or sub-urbanized, and that many rural areas have not kept up, economically, with the rest of the country.

Engel’s Law and Bennett’s Law imply two possible directions for rural agricultural communities. The first is to seek out specialty markets domestically. While the share of income spent on food in aggregate will decline with economic growth, both absolute and relative spending on specialty items can be expected to rise. The second possible avenue for agricultural communities is to look abroad for growing food demand.

Whereas an additional dollar of income in the U.S. generates about 10 cents of increased spending on food, a dollar’s income growth in poor countries can imply as much as 60 cents added food consumption. The areas with the greatest potential growth in demand for U.S. agricultural products are those poorer countries that are experiencing rapid income growth. In such regions one can expect a high share of added income to go to food, and also a transition from direct consumption of cereals to meat consumption and the consumption of higher value food products.

This pattern was demonstrated by consumption in East Asia in the 1980s. During this period of rapid income growth, meat consumption rose at almost 6 percent per year in East Asia, compared to 1 percent annually in the developed economies (IFPRI, 2000). With growth in meat consumption, feed demand swelled and grain imports rose dramatically. Imports of maize into South Korea rose from 2.35 million metric tons in 1980 to over 7 million in 1989; South Korea’s imports of feedstuffs rose from 13 thousand metric tons in 1980 to 1.6 million metric tons in 1989, to 3.6 million in 1998. Despite this growth in meat demand, meat consumption per capita in developing countries remains about 25 percent of that in developed economies, implying that there is room for further growth in those markets. Of course the relative decline in direct consumption of cereals is not met solely through meat

1 All data on agricultural production and trade are from the UN Food and Agriculture Organization, www.faostat.org.
consumption. Fresh fruits and vegetables, oils and fats and processed foods also expand in people’s diets as incomes grow. Rapid income growth in poor countries, therefore, can provide an expanding market for a range of agricultural products from raw grains, to convenience foods, to beverages.

While the international market provides opportunities for rural producers, there may be considerable risks and high costs to finding and capitalizing on those opportunities. Concerning the risks, economic performance in developing countries is highly variable and difficult to forecast. During the 1990s, the U.S. enjoyed average annual growth rates of 3.2 percent, one of the best peace-time performances in the country’s history. By comparison, China recorded an average annual growth rate of 11.2 percent. Chile, Ireland, Lesotho, Malaysia, Singapore, Sudan, Uganda and Vietnam all grew at over 7 percent per year during the period; and 12 more countries of Asia, Latin America and Africa recorded growth of over 5 percent per year on average. While these impressive growth rates suggest growing markets abroad, other foreign economies, especially the “transition” states of the former communist bloc, experienced rapid economic contraction; Moldavia’s annual growth rate averaged -12.6 percent, Georgia’s was -12.8 percent and the Ukraine’s -11.9 percent. While major international corporations can track international economic trends themselves, small businesses would benefit from state assistance to understand and interpret the uncertainties associated with different countries’ economic outlooks.

Given a sense of which countries have strong growth prospects, considerable market information would be required to determine whether the specific products consumed in those countries are consistent with a state’s comparative advantage. Despite its 11 percent annual economic growth, dairy products remain a small part of diets in China, leaving that country an unlikely bloc for Wisconsin cheese. Similarly, rapid economic growth in (Islamic) Sudan and Bangladesh probably does not translate into vibrant markets for California’s wines or Iowa’s bacon. Be that as it may, China’s growth may have considerable implications for corn, wheat and soy producers who could help the country meet its growing feed and vegetable oil demands. Where a match between the products produced and those demanded is not in place, state sponsored research could determine whether a market niche might be created, or whether producers could supply a different product. An example of the later might be shifting from yellow to white corn or marbled to lean meat production to meet the taste preferences in a foreign market. Shifts in product quality or destination are likely to be recurrent issues as third country suppliers enter markets over time. A state therefore has an ongoing role in providing information about market demand in foreign countries that is relevant for the state’s producers, but comes at a cost which may be too high for individual agents.

Once a foreign country with an appropriate demand profile is identified, a state’s producers may find considerable institutional barriers in the form of administrative regulations, commercial law, and contract enforcement. Interpreting the commercial law of a foreign country could be a costly task and the consequences of misunderstanding that law could be far more costly. A state government can reduce the total costs of navigating a foreign institutional structure providing liaison services, training, or consulting through a foreign trade office. These services are especially important when the export products are produced by small businesses that lack the relevant internal resources.

Finally, states can play an important role in establishing the presence of their producers in a foreign market. The costs of doing business with a particular counterpart tend to decline over time as relationships deepen and reputations are established. Consequently, early entrants into an emerging market can often defend a large share of that market as it grows. The role of promoting its products is probably most important in newly opening economies such as Vietnam, South Africa, or potentially Cuba. If a state’s producers are among the first to establish trading relationships with agents in such countries, and if those relationships are mutually beneficial, suppliers from other countries will not easily break into the market. That implies both a payoff to aggressive promotion in specific markets and a long term cost of failure to enter markets in a timely way.

The market research, technical and administrative services, and promotional activities described here constitute costs of doing business that must be paid if rural producers are to access international markets. States that wish to promote economic development among rural communities that lack the capacity to pay such costs should find mechanisms to deliver support in these areas.

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Impacts of Tax & Expenditure Limits on Local Governments: Lessons from Colorado and Missouri

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Tax and expenditure limitations (TEL) on state and local governments have been passed with the presumption they will limit the growth of government, raise government efficiency, and increase direct democracy by requiring voter approval of tax increases. Both the popular press and the academic literature focus on the impacts of TEL on state budgets. Yet at a time when decentralization and devolution are increasing demands on local government, TEL provisions are in some cases causing rigidity in local budgets and subsequent fiscal stress. The smaller the budget, the more significant the potential adverse effects of TEL, and small governments tend to be rural. While there is some evidence that governments under TEL become more efficient, governments typically look for ways to circumvent the restrictions as they become more severe, increasing inefficiencies and reducing both representative and direct democracy, the opposite of the intended effects of TEL laws. States would be wise to avoid TEL and instead utilize stricter reporting and auditing requirements. The latter are a more direct means of monitoring public sector management while allowing local governments the flexibility to adjust to local fiscal circumstances.

Impacts on Local Budgets

Some evidence of the impact of TEL can be found in the experience of Colorado and Missouri. At the state level, Colorado’s “Taxpayer’s Bill of Rights” (TABOR) law limits the growth of state expenditures to the rate of inflation plus the population growth rate. All surplus revenues are returned to voters. Missouri’s constitutional amendment, known as the Hancock amendment, limits the growth in state revenues to growth in personal income (Hembree, 2004). Local governments in Colorado face both expenditure and revenue limitations and all tax increases must be approved by voters (Brown, 2006). In Missouri, the growth of property tax revenues is limited and all tax increases (with one exception, as discussed below) must be approved by voters.

In general, the smaller the budget, the less flexibility to reallocate funds, so that even a small change can have major budget implications. Tax and expenditure limitations do not take into account all of the factors that may require increased expenditures at the state or local level and frequently ignore business cycles. In addition, they impose a one size fits all policy on all local governments rather than allowing local officials the flexibility to govern according to local circumstances and the needs of the local citizenry. In this environment, TEL would be expected to cause fiscal stress for local governments and higher stress might be anticipated for smaller governments, which tend to be rural.

Major factors that lead to demands for increased government expenditures include:

- Increased costs of providing existing services.
- Increased service demands due to increased population. As population increases, a higher quantity of each service is needed to meet the population change. At some point, new capacity—schools, sewers, etc.—needs to be added. Such capital expenditures are lumpy and increase average costs, requiring large expenditure increases.
- Increased demands for the quantity and quality of services because of per capita income increases. Public goods are usually normal goods, which
means that as incomes increase people demand more of them.

- Changing circumstances that require new public services. Decentralization of government functions to local levels and new demands due to unforeseen events increase fiscal pressures on local governments, the 9-11 terrorist attacks being the most obvious example.

Most TEL laws do not take all of these factors into account, leading to potential budget shortfalls. Brown (2006) investigated the impact of TABOR on Colorado municipalities and found it has created fiscal stress in municipalities, resulting in 356 elections for exemptions to spend existing revenues beyond TABOR limitations. Voters approved 325 of those requests.

While Missouri local governments reassess real property every two years, property values can only rise as much as the Consumer Price Index in the previous (single) year before property tax rates must be rolled back to a revenue-neutral rate. While inflation increases the costs of providing government services annually, local government revenues can only be adjusted upward for inflation every other year. Local governments that rely less on property taxes are not as affected by this constraint. Rural jurisdictions tend to rely more on the property tax because their sales and other tax bases are limited. Rural jurisdictions are therefore more likely to be adversely affected by the restrictions.

TEL may affect local governments in other ways. Reprioritizing or cutting state spending may indirectly cause local governments to spend more. For example, a cut in Medicaid reimbursement rates or a change in eligibility rules may increase un-reimbursed costs for local hospitals—many of which are publicly owned. Brown (2006) divided the state of Colorado into five regions to examine the effects of TABOR on local communities. In two of the three rural regions of Colorado, state revenues per capita to local governments have declined because of TABOR limitations. At the state level, education and public health have had disproportionate spending cuts. Rural Colorado hospitals serve a disproportionate share of the uninsured and elderly. Budget cuts have increased the use of private charity funds and financial write-offs in rural hospitals, threatening their finances (Bell Policy Center, 2005). Rural counties have the highest suicide rates while mental health programs have been eliminated or reduced. Funding for programs in rural community colleges has been eliminated (Bell Policy Center, 2005).

The Colorado Front Range region has not faced severe restraints from TABOR since property values there are rising at a faster rate than population. In the rural southern region of the state, however, property values are rising, but population is rising faster, resulting in declining revenues per capita even as population growth increases demands for local public services, creating a risk of a self-perpetuating negative cycle (Brown, 2006). Because TABOR limits are based on growth in property values, slower growing regions face tighter expenditure limits, which may limit those regions’ ability to offer services and infrastructure that could encourage growth.

Impacts on Efficiency

The objective of TEL is to reduce the growth of government spending, presumably forcing governments to become more efficient. There are several trends that suggest TEL laws may have that effect. But the very same trends may also imply fiscal stress. Additional research is needed to determine which factor is driving the changes described below. The trends include the re-prioritization of local government spending, increases in the use of fees and permits, and increases in the number of special districts for providing public services.

Since the passage of TABOR, Colorado municipalities have changed their spending priorities. Total operating expenditures, general government, public health, law enforcement and street maintenance expenditures per capita have decreased. Only solid waste, cultural and recreational expenditures per capita have increased (Brown, 2006). Whether those shifts represent an increase in efficiency or cutting of services that people want is unclear without further research.

A basic tenet of efficient allocation of resources is that those who benefit from the action pay for the costs. The use of fees and permits to finance municipal services has increased in Colorado (Brown, 2006). Mullins (2004) has also found that property tax limitations increase the use of fees. This may have a positive impact on efficiency because those who are benefiting from the service are paying for it. Fee revenues to Missouri local governments have increased 238 percent in real terms between 1992 and 2002 (U.S. Census Bureau, 1992 and 2002). Nationally the use of fees by local governments went up 27 percent. Depending upon the service and its cost, reliance on fees and permits could cause difficulties for poorer families.

The Bell Policy Center (2005) attributes the rise in the number of special taxing districts in Colorado to TABOR. The structure of the special districts may make them very efficient because they meet a particular demand of district voters who are paying for the
service (Tiebout, 1956). On the other hand, special districts may be created to provide public services that have been cut by other local governments. At the same time, some of the special districts may be too small to achieve the economies of scale necessary to provide low-cost services. Mullins (2004) also expresses concern that the increasing use of special districts fragments local government, making it too complex for citizens to understand and lowering accountability. In addition, the particular structure of a Tax Increment Financing District (TIF), in which one jurisdiction can unilaterally declare a district and garner all or part of the increased tax revenues that would have gone to overlying jurisdictions, may lead to inefficiencies. A TIF district allows a jurisdiction to increase its tax revenues, and expenditures, without increasing taxes (RSMo Section 99.800 to 99.865). Generally, by using a TIF urban areas can gain tax revenues from a county, reducing the revenues for the unincorporated (rural) areas in the county. While unincorporated areas legally may be able to declare a TIF, they are practically excluded from the benefits of doing so because there usually is not an overlying district whose tax revenues they can claim.

There is no evidence that local governments in general are mismanaged. If mismanagement is the concern, stronger reporting requirements and more vigilant monitoring by the state may be a more effective way to solve the problem. Some examples include requiring a standard budget reporting format and annual audits of local governments. The state can use the reports for analysis that would show local governments that standout at either end of the management spectrum. Standouts can be further investigated, both to highlight good management practices and to show where improvements can be made. Allowing FISCAL flexibility COMBINED with reporting requirements is a more effective way to avoid mismanagement than applying a one-size fits all policy to all local governments in a state.

Impacts on Direct Democracy

An argument made in support of TEL laws is that they increase direct democracy by requiring citizen votes to raise taxes (Bell Policy Center, 2003). Colorado municipalities report that they are emphasizing voter education and seeking citizen input earlier and more aggressively than they did before TABOR (Brown, 2006). At the same time, the Bell Policy Center (2003) reports that only 30 percent of voters turn out in elections that focus on fiscal matters.

When local governments face revenue limitations combined with increased responsibilities from the state, and perhaps increased or at least changing demands from citizens, they are motivated to “solve” these problems by looking for mechanisms and institutional changes to get around binding rules (Mullins, 2004). This is a form of public entrepreneurship which the state may not be able to control. Such practices can lead to new, creative and better government, or they may reduce both representative and direct democracy. Mullins (2004) argues that when a blanket policy is imposed on all governments it reduces both local officials’ and citizens’ control over the decisions of their local government, because it restricts their choices.

In Missouri, Tax Development Districts (TDD) may be formed to finance transportation projects that benefit properties in the district. A given project is financed with a new special assessment, property tax, sales tax or toll. When passed in 1990, a TDD coincided with the boundaries of an existing political jurisdiction and required approval by a majority of voters in the district. The law was not used until a change in 1998 allowed a district to be smaller than a political jurisdiction. Additionally, if there are no voters in the district, the owners of the real property in the district can file a petition with the District Court to form the district and put in place a tax or a toll (RSMo 238.200 to 238.375). Since that change in the law, the use of TDD has grown rapidly. In this instance, there is neither direct nor representative democracy.

TIFs in Missouri also reduce both direct and representative democracy because elected officials and the citizens of the overlying jurisdictions have no effective voice in the declaration of the TIF, nor in the use of the resulting tax revenues.

Summary

Tax and expenditure limitations have been passed with arguments that they will limit the growth of government, increase governments’ efficiency, and promote direct democracy by requiring voter approval of tax increases. Existing research, as well as experiences in Missouri and Colorado, including trends in those states such as the re-prioritization of spending, the increased use of fees and permits, and the increased use of special districts may be signs of either improved efficiency or rising fiscal stress. Local governments facing fiscal stress because of TEL legislation may look for ways to circumvent the restrictions of the legislation, causing unanticipated inefficiencies and reducing both direct and representative democracy. The weight of the evidence suggests that local governments are stressed by TEL and are working hard to find alternative ways to fund public services.
Ironically, local governments petition the state to pass legislation, such as a TIF or TDD, that will enable them to circumvent the restrictions of TEL provisions. New legislation is passed to “correct” for previous legislation when the best idea would be to repeal the original legislation causing the problem. While state legislatures cannot repeal constitutional amendments, they can initiate the process. In addition, legislators can change other limitations on local governments as a way to provide fiscal relief, including repealing tax rate caps and allowing local governments a wider variety of tax options. Increased local control increases both representative and direct democracy. Vigilant state monitoring and reporting requirements are more direct ways of assuring good local government management than TEL, while also granting local governments the flexibility to adjust to their unique local fiscal circumstances.

References


Rural Telecommunications Subsidies Do Not Help

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The common justifications for government subsidies for rural telecommunications are to promote universal service and to promote economic development. While the case for subsidizing many rural telephone services is stronger than for more urban settings, it is still weak and subsidy implementation has likely been corrupted by rent seeking practices. Because of this and because many newer technologies tend to reduce rural disadvantages, a policy of limiting subsidies is likely efficient.

Communication is likely to be more valuable to rural customers but more costly to provide. Greater physical distances often limit contact between rural customers with each other and with urban centers. Since substitutes are more scarce, rural customers attach more value to phone calls and, all else equal, tend to make more of them. At the same time, rural areas tend to be more expensive to serve. A large portion of the costs stem from the physical wires connecting a customer with a telephone company central office. In more densely populated areas, those wires can be shorter and easier to maintain. Additionally, there are economies of scale and scope at a central office since switches are typically designed to serve more lines than are demanded in rural communities. All told, these additional costs can increase the costs of provision by 25 to 100 percent. Recent advances in wireless services and high capacity inter-office trunks have reduced these cost disadvantages.

Additionally, investments in telecommunications infrastructure are claimed to have multiplier effects benefiting the local economy. A more extensive local telecommunications network reduces the operating costs of businesses that make use of it. For true multiplier effects, the benefits must exceed firms’ derived demand for telecommunications services. This could be true since telecommunications service is likely to generate network externalities. However, at current penetration rates, these externalities are likely to be small.

Rural telecommunications services are already extensively subsidized through various federal and state “universal service” cross-subsidization programs, USDA’s Rural Utility Service loan programs and a variety of state level programs. By the 1930s, only about 30 percent of all U.S. households had telephone service, with a smaller share in rural America. Congress enacted laws to foster household subscription to telephone service. This was largely accomplished with implicit taxes on business services and long distance services, used primarily by businesses and the wealthy, generating cross-subsidies intended to keep local residential rates below their costs. In addition, specific provisions channeled some of the “tax revenue” to subsidize rural, or “high cost” service. This basic structure remains today except that the taxes and subsidies have been made more explicit and the subsidy amount has grown to $20 to 25 billion.

The largest cross-subsidy is from long distance usage to local telephone usage. Charges for interconnection to local telephone companies’ networks to complete calls are kept artificially high. Regulators set these charges three to ten times the cost of the service to reduce local residential rates by 30 percent, which in turn increases long distance rates by 30 to 40 percent. When this system began, residential subscription rates were low, long distance was a luxury service and it probably encouraged subscription. Currently, over 95 percent of households have telephone service and long distance is much more widely used. Economists have estimated the current lower local rates have a negligible effect on subscription, but the higher long distance rates likely deter subscription (Larson, Makarewicz, and Monson, 1989, Kasserman, Mayo, and Flynn, 1990, Hausman, Tardiff, and Belefonte, 1993, Mueller and Schmment, 1996, Garbacz and Thompson, 1997, Wol-
Iak, 1996, Erickson, Kasserman, and Mayo, 1998, and Hausman, 1998). Moreover, since rural customers tend to use more long distance service, this program probably deters more rural consumers from purchasing telecommunications services than it does urban consumers (Crandall and Waverman, 2000). The resistance of these policies to change in the face of this mounting evidence suggests that they serve some other objective, likely rent-seeking (Kasserman, Mayo and Pacey, 1993, and Teske, 1990).

In addition to subsidizing local service, state and federal programs provide additional specific subsidies to rural telephone service. The more rural states, such as Maine, Mississippi, and Montana have kept their rural telephone rates especially low by setting in-state toll rates especially high. Rates in more urban states, such as California, New York and Massachusetts are less distorted. Thus, the transfer from the urban areas to rural areas is larger in the more rural states. Crandall and Waverman (2000) estimate that only in the more urban states do rural telephone customers benefit from these cross-subsidy schemes, and then by only about $10 to $30 per year.

Since these systems are funded internally, they make clear that subsidies necessarily entail taxes, usually to the same customer but on different services. Unless the scheme is meeting a policy objective that the market is not able to address (e.g., externalities), such a scheme makes the average customer worse off. In this case, since the taxed service is more elastically demanded than the subsidized service, it makes most consumers worse off. Policy makers may be willing to accept costs on the average consumer if doing so makes certain target groups better off (i.e., low income, children, the ill, or the rural). The larger cross-subsidy schemes addressed above generally do not, but others might (e.g., targeted subsidies to the low-income, schools or telemedicine).

More targeted “Universal Service” programs have been introduced to help low-income consumers, high cost providers, schools and libraries, and rural health. They tend to disproportionately favor rural consumers. The amount of support for these programs currently is roughly $0.5 billion for low income, $1.8 billion for high cost, and $2.25 billion for schools and libraries. The rural health program is new and has few expenses, but is expected to reach $0.4 billion per year. In addition to these programs, the USDA’s Rural Utility Service operates the Rural Telephone Bank that offers subsidized loans to rural telecommunications firms. Since rural areas are disproportionately low income, they receive more of these payments on a per capita basis than other areas. Rural areas receive about 80 percent of the high cost fund and will receive nearly all of the rural health allocation. Through these programs, rural areas receive slightly more $100 per household per year while urban areas receive just under $20 per household per year.

Much of this support may not actually flow to the consumers. For example, since providers with higher costs are able to claim more of the high cost funds, the incentive to maintain costs is reduced. Moreover, the payment goes to the provider and not necessarily to the end user. Customer decisions are distorted in that they may opt for a subsidized high cost service rather than more efficiently provided service from a substitute provider. Unsubsidized newer technologies, such as wireless or that use cable television or power lines that may be less costly, would not be chosen. While these programs are expanding to include more technology options, they are typically not neutral with respect to providers or technologies. A possible solution would have the subsidies operate like food stamps—that is, “phone stamps”—so that consumers could take them to whoever provides the preferred service.

The existing subsidy programs already favor rural areas. Those that succeed create large distortions to transfer modest amounts to rural areas. Still, the stated policy objective, universal service, was essentially achieved decades ago. These programs likely are the products of rent-seeking activities that provide few benefits to consumers but transfer huge rents to a few firms. Most of these programs can no longer be justified on a cost-benefit basis and would not be likely survive in a truly competitive market. Current efforts to encourage competition at all stages of the telecommunications industry are likely to make most consumers, even rural consumers, better off. Newer services, such as Internet access and mobile services are more scalable and so better suited to rural deployment. More consumers, even those in rural areas, have adopted these newer technologies more quickly without subsidies than any service with subsidies (Greenstein and Downes, 1999). Expanding these subsidy programs to cover these new services would likely simply distort markets and provide more rents to telecommunications providers. Rolling back the market distortions created by these policy interventions might be hoped for. However, simply not extending them to newer technologies should improve consumer welfare. In this case, they will continue to distort, and competitively disadvantage, an increasingly smaller portion of the telecommunications market.

A few points made above have implications for telecommunications policy at the state level. First, the economic justifications for policy intervention into telecommunications markets are weak. Second, pro-
posed changes in policy should consider the current web of state and federal targeted and untargeted policies. Third, current telecommunications policy was developed generations ago without reference to current demand, costs or new technologies. Fourth, these policies likely remain because they benefit a few rent-seekers but are no longer helping rural customers and may be harming them. Fifth, new communications technologies have diffused broadly and quickly, even in rural areas, without (and sometimes despite) policy intervention. The preferred policy implied by these concerns is usually described as “benign neglect.”

References


Encouraging Broadband Deployment from the Bottom Up

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Recommendation

State governments that have elected to make investments to increase the availability of affordable broadband service in rural areas and low income urban neighborhoods should organize their efforts around a strategy that encourages and leverages locally-driven initiatives, rather than follow a top-down approach that seeks to identify and close all broadband service gaps in a comprehensive fashion. A bottom-up approach to state broadband policy has three major advantages. First, it is a conservative policy response in an economic arena in which the appropriate role of the public sector is highly contested and in which private sector deployment is proceeding rapidly, even as gaps in service in rural and poorer communities remain. Second, it acknowledges the extraordinary practical difficulty of identifying and addressing all broadband infrastructure and service gaps at any point in time, given data limitations and the rapid pace at which technologies, services and the telecommunications industry itself are evolving. Third, it facilitates the design of solutions that are unique to the local conditions in places where gaps exist and where local commitment to policy action is clearly demonstrated.

Broadband as a State Policy Issue

Today a growing number of states are debating whether to develop programs or enact legislation designed to encourage faster deployment of broadband infrastructure to rural areas and lower income urban neighborhoods (Brennan Center 2006). With the Internet becoming the means of delivery of an ever broader array of information products and services in education, health, entertainment and government, the need for faster broadband is increasing. Broadband, a term often used to refer to high-speed, always-on connectivity to the Internet, may be defined generally as a transmission channel of sufficient capacity to effectively deliver advanced information services. Although the Federal Communications Commission (FCC) defines “high speed” broadband as facilitating the transfer of data at a rate of 200 kilobits per second in either the downstream (provider to customer) or upstream (customer to provider) direction, a growing slate of applications require the size of the information “pipe” to be much larger than 200 kbps to function optimally. Some technology specialists argue that true broadband is between 30 and 100 megabits per second (Mbps). The most common current forms of consumer broadband provisioning in the U.S.—digital subscriber line (DSL) and cable—typically offer speeds of between 1.0 and 6.0 Mbps (Gillett and Lehr 1999).

Debates around broadband deployment as a subnational policy issue generally center on two related questions. The first is whether broadband is an increasingly critical infrastructure for economic development at the state and local levels. While careful empirical studies of the link between broadband and local and/or rural development are few, a recent study commissioned by the U.S. Economic Development Administration finds higher rates of economic growth in zip codes served by broadband, versus a matched sample of zip codes unserved by broadband (Gillett et al, 2006). Other studies have focused on the substantial economic impact of broadband (Crandall and Jackson 2001), potential U.S. productivity losses from a failure to improve broadband networks and performance (Ferguson 2002), and case studies of positive impacts from deployment efforts in specific communities (e.g., DTI 2003). Such evidence, together with the fact that a number of countries in Europe and Asia have implemented significant broadband deployment strategies in recent years, has convinced...
some state leaders that U.S. telecommunications policy is too passive and that state governments should step in to ensure their own infrastructures are globally competitive (Bleha 2005). May 2005 statistics compiled by the International Telecommunications Union (ITU) show the U.S. ranking 16th in broadband subscribers per 100 inhabitants (often referred to as “broadband penetration”). Leading the U.S. are countries such as South Korea (1st), the Netherlands (3rd), Canada (5th) and Japan (13th). Of more concern to observers is the precipitous decline of the U.S. ranking. The U.S. ranked fourth in ITU’s survey in 2001.

The second subnational policy question is whether states should take action to ensure that all citizens and geographic areas have the opportunity to purchase some type of broadband service, preferably at an affordable rate. The existence and potential consequences of differing rates of utilization of computer and Internet technology among different population segments—rich and poor, rural and urban—were publicized widely in a series of reports prepared by the National Telecommunications and Information Administration during the 1990s (NTIA 1995; 1998; 1999; 2000). The reports, titled Falling through the Net, tracked the information disadvantaged—“those who are not connected to the National Information Infrastructure”—finding that they are disproportionately located in rural areas and poorer central cities. The series fed concerns that a “digital divide” is emerging in the United States, such that those who cannot access, afford or properly use computing and Internet technologies will be left behind as the knowledge- and information-intensity of the economy increases. Another study finds that rural small businesses subscribe to broadband at lower rates than their urban counterparts, and that rural businesses typically face higher prices for service (Pociask 2005).

Do Something or Do Nothing?

When state officials take up the broadband policy question, they quickly find that the environment in which they might design and implement any response is characterized by extraordinary debate, complexity and flux, including:

- The absence of a consensus of the appropriate role of government in broadband provisioning, with proponents of government action citing public goods and imperfect competition rationales and opponents pointing to high rates of private sector deployment as evidence the market should be left alone;
- Rapid, ongoing changes in broadband technologies and related standards, such as the emergence of various wireless protocols/systems and continuing development of satellite, broadband over power line, and fiber to the curb/premise solutions;
- Shifting definitions of broadband as bandwidth demands evolve, and widespread disagreement among experts about what speeds to target;
- The absence of a single optimal technological approach appropriate for all provider situations and geographic cases;
- Broadband provisioning business models whose viability is not generic, but is rather dependent on specific local or regional conditions;
- Multiple potential provider types to address specific broadband needs, including traditional telephone companies, cable companies, for-profit and non-profit wireless providers, municipalities, electricity companies and cooperatives, and existing state-owned networks;
- Diverse sources of potential federal funding to accelerate deployment, including programs operated by the Small Business Administration, U.S. Dept. of Agriculture, and U.S. Dept. of Commerce;
- Continuing strong rates of market-driven deployment in many areas;
- A continuously evolving federal regulatory environment and very little state control over the thorniest regulatory issues governing competition in the broadband marketplace.

In this environment, it is no surprise that some states have opted to take a wait-and-see attitude with respect to broadband deployment. They are encouraged in that approach by telephone companies, cable companies, and other private sector interests that are wary of any government involvement that might result in additional competition in the markets they serve. Moreover, surveys show that broadband penetration is increasing fairly rapidly in the U.S. and differences in availability in take-up rates by race, income and location are narrowing (Horrigan et al., 2003; Bell et al., 2004). If the complexity of the problem is high—implying that government’s effectiveness is likely to be low—and market forces are moving in the right direction, why do anything at all? It is possible there is no significant role for state government to play.

Advocates of public sector action cite several reasons why some government intervention is justified. First, despite overall upward trends in broadband penetration, there is ample evidence that some areas—particularly geographically remote ones and low-income urban communities—are unserved and probably will remain so for some time given the absence of sufficient current demand to motivate purely private sector investment (Pociask 2005). To the degree that
Finding Gaps and Targeting Solutions

A bottom-up strategy is not necessarily an easy strategy. It means undertaking multiple simultaneous activities, including provision of consumer and business information, technical support for local planning and deployment, brokering of local partnerships, ongoing study and development of policy to reduce obstacles to local deployment, and monitoring of deployment and utilization trends. To do those things well, states need the administrative capability to maintain maximum flexibility in the delivery of support. Flexible bottom-up approaches are often harder to implement than top-down grants and spending programs constrained by arbitrary parameters (technology type, eligibility of provider type, eligibility of area, grant size, etc.).

The state role as catalyst is probably most effectively coordinated by a single small but flexible organization that has the expertise, resources and authority to maintain sustained leadership on broadband and digital divide issues. While such an organization must serve as an information clearinghouse, technical resource, and policy advisor, it would not act as a major program administrator, since deployment initiatives would be driven by agencies and organizations at the local level. The state organization would provide a “one stop shop” to assist service providers, consumers, and local governments undertaking broadband initiatives; help facilitate leveraging of federal, corporate and foundation funding sources; maintain a catalog of best practices; provide training as necessary to help build local capacity to address broadband needs; and ensure that broadband issues receive sustained state-level policy attention.

One might argue that states should first document all infrastructure needs, evaluate the costs and benefits of closing various gaps, and direct investments accordingly. The problem with that rational-comprehensive approach is that the creation of an up-to-date map or catalog of a state’s information technology infrastructure is extraordinarily difficult, both because providers are loath to release information on their networks and the infrastructure is evolving rapidly; maps are out-of-date shortly after they are created. The rational-comprehensive approach also implies that the state could successfully direct the closure of gaps even when no local initiatives are driving the intervention. By letting local efforts push solutions, the state can leverage the efforts it believes will be most successful, conducting due diligence accordingly, while also building a catalog of infrastructure gaps and needs. The organization can also maintain a degree of neutrality toward technologies- and provider-types.

states place value on broadband access for all citizens, targeted efforts to remove persistent gaps is both justified and necessary. Market forces alone are not likely to close such gaps, a clear market failure if access to information is regarded as a merit good. Second, while at least low-end (e.g., DSL, cable) broadband is becoming more ubiquitous, affordability is still a problem. Competition is limited in many rural areas and consequently prices remain high (Brennan Center 2006). In many places, the local telecommunications market is very clearly not a competitive one. Third, as broadband infrastructure improves, demand-side challenges in rural and low-income areas persist, namely the need to provide adequate training for users, to encourage the development of products and applications tailored for the specific needs of rural or disadvantaged populations, and to address the absence of terminal equipment (home and school computers to connect to the Internet). Here again, the policy rationale rests on a public goods case for access to digital information and technologies.

It is not clear that the highly contested broadband policy debate can be settled definitively, given legitimate arguments on both sides. In that context, what advice might be offered those states that have already sought to intervene in the broadband provisioning market is very clearly not a competitive one. Third, as broadband infrastructure improves, demand-side challenges in rural and low-income areas persist, namely the need to provide adequate training for users, to encourage the development of products and applications tailored for the specific needs of rural or disadvantaged populations, and to address the absence of terminal equipment (home and school computers to connect to the Internet). Here again, the policy rationale rests on a public goods case for access to digital information and technologies.

What states should not do, given the challenging broadband technology, market and regulatory environment described above, is attempt a large-scale strategy that seeks to address all broadband concerns in a comprehensive fashion. On the one hand, it has proven very difficult for states to get an accurate picture of where infrastructure gaps exist, given poor data and unwillingness of providers to supply information on their facilities and networks. On the other hand, appropriate solutions are often so locally-specific and dependent on the cooperative efforts of local private and public sector players, that state efforts to push solutions from the top down are too likely to fail. Instead, states that are seeking to boost broadband deployment and utilization should adopt a policy framework that explicitly encourages innovative locally-based solutions to broadband provisioning. A bottom-up approach sees state government as a catalyst, facilitator, and occasionally co-investor to local initiatives. And, while it is difficult to make a blanket case for or against government intervention in broadband deployment as a general matter, it is much easier to make competent policy decisions when specific initiatives in specific places are in play.
While private sector provisioning is preferred as a default, public (e.g., municipal) and public-private provisioning options can be encouraged where needs dictate and local citizen and business interest is present. When local projects and needs dictate solutions, state programs are less likely to inadvertently encourage a particular technology or provisioning model as a “magic bullet.”

The bottom-up strategy is being implemented successfully in some states. The leader is probably North Carolina, which describes its broadband policy explicitly as a “grassroots” effort with a state-designated “e-champion” organization acting as a catalyst and resource for locally driven initiatives (E-NC 2003). North Carolina’s broadband authority is a lean organization, operating with a permanent staff of six people and an annual operating budget of $1.8 million. It reports leveraging over $206 million in federal, community and business support for local projects between its founding in 2000 and the end of 2005 (E-NC 2005). While North Carolina has developed perhaps the most complete infrastructure mapping system to aid its decision making, many of its efforts could have been implemented without a detailed statewide infrastructure catalog. Kentucky has also established an initiative designed to encourage decentralized solutions, patterned closely after the North Carolina model, though Kentucky’s is more limited in its scope.

Summary

Whether and how states should encourage the deployment and utilization of broadband technology are challenging questions. Given the complexity of the technological, regulatory and market environment in which broadband is developing, states should avoid attempts to design and implement high cost, top-down, comprehensive strategies aimed at closing all infrastructure gaps. Instead, they should look to design and implement flexible programs to incentivize and assist locally-driven efforts to improve provisioning and encourage demand. While that will require building a capability to truly catalyze local efforts, preferably housed in a single small organization or authority with the necessary expertise, it need not require massive expansion in government programs or the creation of a large bureaucracy.

References


Getting State Rural Policy Right: Definitions, Growth, and Program Eligibility

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We often use the term rural very loosely when discussing public policy. Rarely do we describe explicitly the kinds of places we have in mind for particular programs and craft precise eligibility requirements that deliver the programs to those places without expensive leakages to other, unintended beneficiaries. Yet, whether state policies directed toward rural people and places are appropriate and effective depends on how places are selected for inclusion or exclusion. Furthermore, how we understand rural conditions and the policy context depends on the definitions we use. Floating about are definitions of rural so varied that anywhere from 58% of the U.S. population to a mere 2% is in rural areas, and both these extremes are based on federal statistical categories.

I draw your attention to three facts and three policy recommendations:

(1) **Fact:** A very common way of defining rural ignores the majority of rural people.
**Recommendation:** Pay attention to defining rural so that state policies and programs reach the people and places you intend them to serve.

(2) **Fact:** Most rural people live in growing counties, although hundreds of rural counties are declining in population.
**Recommendation:** Recognize the great diversity of rural policy contexts and that growth, not decline, is the most common policy context for rural people.

(3) **Fact:** Program eligibility rules vary greatly.
**Recommendation:** Craft program eligibility rules that recognize the goals of specific programs, the unique geographic landscape of the state, and its evolving blend of cities, towns, and countryside.

Pay Attention to Rural Definitions

Among the various federal government ways of categorizing the nation’s space only one distinguishes city, town, and country in a way that matches popular notions of urban and rural or what we recognize as settlements and countryside from the air. The U.S. Bureau of the Census separates all the territory of the United States into urban and rural areas. The complex process involves several steps and criteria (Isserman 2005). A key determinant is whether a census block group has more than 500 people per square mile. If a combination of contiguous block groups meet the criteria and together have a population greater than 2,500, they are an urban area. The nation’s 3,616 urban areas occupy less than 3% of the nation’s territory. The most populous are centered on New York, Los Angeles, Chicago, and Philadelphia, with 18, 12, 8, and 5 million people, respectively, whereas 2,239 other urban areas have 10,000 or fewer people (Table 1).

Rural areas are defined officially as what is leftover, the 97% of the nation’s territory not in urban areas. The rural areas house 59 million people, or 21% of the population. Although popular usage includes a rich range of places, such as center city, suburban, and exurban, they are not defined officially and where they are within the urban-rural dichotomy has not been determined in rigorous, systematic fashion. Most suburban and many exurban census block groups probably are included within urban areas, but no authoritative attempt has determined how well the Census system matches popular concepts or professional

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design notions of city, urban, suburban, exurban, rural place, and countryside. The Office of Management and Budget (2000, p. 82229) states the Census Bureau is “investigating the feasibility of developing a census tract level classification to identify settlement and land use categories along an urban rural continuum,” but over six years later none exists. The current Census system that distinguishes only between urban and rural is the one federal source that identifies rural areas.

States vary greatly in their urban-rural distribution. Fewer than 10% of the populations of California, New Jersey, Nevada, Hawaii, Massachusetts, and Rhode Island lives in rural areas, but, in descending order, Vermont, Maine, West Virginia, and Mississippi are 51% to 62% rural. Texas and North Carolina have more than 3 million rural residents each, and nine states have between 1.9 and 2.8 million rural residents: in descending order, Pennsylvania, Ohio, Michigan, New York, Georgia, Tennessee, Alabama, Virginia, and California. Figure 1 shows the rural areas’ percentage of each state’s population, and the location of its urban areas. A great variety of urban-rural geographies is evident.

The Office of Management and Budget (OMB) uses the urban-rural system of the Census Bureau as a key component in defining metropolitan, micropolitan, and non-core based areas. Metropolitan and micropolitan areas consist of an urban core and outlying integrated areas. If a county houses all or part of an urban area with 50,000 people or more, it is a core county of a metropolitan area. If it has all or part of an urban area with 10,000 to 49,999 people, it is the core county of a micropolitan area. Adjacent counties are added to the metropolitan and micropolitan areas on the basis of commuting, the sole indicator of social and economic integration with the core counties. If 25% or more of an adjacent county’s employed residents work in the core counties, that adjacent county is also part of the metropolitan or micropolitan area. Likewise, if the core counties provide 25% or more of the labor force employed in an adjacent county, the adjacent county is included. Since the 1950 census, this system, with periodic reviews and modifications of its criteria, has combined urban and rural areas into economically integrated regions using counties as the building blocks.

An unfortunate, common practice of the federal government, nongovernmental organizations, and scholars is to use “non-metropolitan” and “rural” interchangeably and equate “urban” with “metropolitan” (e.g., USDA 2005; National Association of Counties 2006; Housing Assistance Council 2005; Johnson 2006; Porter et al. 2004). This practice ignores the fundamental distinction between OMB’s system for linking together economically integrated urban and rural areas into metropolitan and micropolitan areas and the Census’ system for separating the nation into urban and rural areas.

Here is the problem in numerical terms. The majority of rural people, as defined by the Census Bureau, live in metropolitan areas. Making non-metropolitan synonymous with rural omits more than half the nation’s rural population. A state program that uses non-metropolitan as the eligibility requirement disqualifies large shares of the rural population, ranging from 13% in Hawaii and Wyoming to 77% in

### Table 1. U.S. population distribution by urban area size group and rural, 2000

<table>
<thead>
<tr>
<th>Bureau of the Census, Urban-Rural Category</th>
<th>Population</th>
<th>Square Miles</th>
<th>Density</th>
<th>No. of Urban Areas</th>
<th>% of Pop.</th>
<th>% of Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>58,700,918</td>
<td>3,443,567</td>
<td>17</td>
<td>--</td>
<td>20.9%</td>
<td>97.4%</td>
</tr>
<tr>
<td>Urban</td>
<td>222,720,988</td>
<td>92,711</td>
<td>2,402</td>
<td>3,616</td>
<td>79.1%</td>
<td>2.6%</td>
</tr>
<tr>
<td>&gt; million</td>
<td>116,880,478</td>
<td>33,757</td>
<td>3,462</td>
<td>37</td>
<td>41.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>500,001 to 1,000,000</td>
<td>23,374,417</td>
<td>10,355</td>
<td>2,257</td>
<td>34</td>
<td>8.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>250,001 to 500,000</td>
<td>18,164,583</td>
<td>9,206</td>
<td>1,973</td>
<td>55</td>
<td>6.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>100,001 to 250,000</td>
<td>20,569,464</td>
<td>11,067</td>
<td>1,859</td>
<td>132</td>
<td>7.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>50,001 to 100,000</td>
<td>13,650,824</td>
<td>7,797</td>
<td>1,751</td>
<td>197</td>
<td>4.9%</td>
<td>0.2%</td>
</tr>
<tr>
<td>25,001 to 50,000</td>
<td>8,540,187</td>
<td>5,419</td>
<td>1,576</td>
<td>245</td>
<td>3.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>10,001 to 25,000</td>
<td>10,382,934</td>
<td>7,033</td>
<td>1,476</td>
<td>677</td>
<td>3.7%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2,501 to 10,000</td>
<td>11,158,101</td>
<td>8,078</td>
<td>1,381</td>
<td>2,239</td>
<td>4.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Nation</td>
<td>281,421,906</td>
<td>3,536,278</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Maryland, 78% in California, and 98 to 100% of the rural populations of Massachusetts, New Jersey, and Rhode Island.

OMB (2000, p. 82228) warns against this practice: “Metropolitan Statistical Area and Micropolitan Statistical Area definitions should not be used to develop and implement Federal, state, and local nonstatistical programs and policies without full consideration of the effects of using these definitions for such purposes. … The Metropolitan and Micropolitan Statistical Area Standards do not equate to an urban-rural classification; all counties included in Metropolitan and Micropolitan Statistical Areas and many other counties contain both urban and rural territory and populations.” As an example, OMB (2000, p. 82229) points out: “programs that seek to strengthen rural economies by focusing solely on counties located outside Metropolitan Statistical Areas could ignore a predominantly rural county that is included in a Metropolitan Statistical Area because a high percentage of the county’s residents commute to urban centers for work. Although the inclusion of such a county in a Metropolitan Statistical Area indicates the existence of economic ties, as measured by commuting, with the central counties of that Metropolitan Statistical Area, it may also indicate a need to provide programs that would strengthen the county’s rural economy so that workers are not compelled to leave the county in search of jobs.”

Evident in the OMB warning and system is the acceptance of the Census Bureau’s distinction between urban and rural. Whether the premises built into the Census system for separating urban from the rest of the nation are acceptable, whether a density of 500 people per square mile is a meaningful way to distinguish urban and rural census blocks, whether suburban and exurban ought to be carved out as well, and whether a state should develop its own system for designating places on the urban-rural continuum are all reasonable, important questions. Yet, for now the

Figure 1. Rural population as percentage of state population (urban areas shown in black), 2000
Recognize Growth, not Decline, as the Dominant Rural Policy Context

The language of decline and disadvantage dominates rural policy debates, which often focus on entitlements and interest groups and getting a fair share for rural areas. Likewise, in the popular press and the scholarly literature, typical foci are rural poverty, rural distress, rural population loss, rural competitive disadvantage, and urban encroachment on rural land and rural values. The attention paid to agricultural subsidies reinforces the belief in rural decline, helplessness, and inability to compete in a global economy without special assistance and subsidies.

The actual situation is very different. Far more rural people live amidst local growth than face local decline. The numbers are stunning. In 2000, 6 million rural residents lived in counties that would decline 2% or more by 2005, but six times as many, 36 million, lived in counties that would grow 2% or more. The remaining 17 million lived in stable counties whose population did not change more than 2%.

This pattern is widespread among the states. In 44 states more rural residents lived in growing counties than declining ones. The six exceptions are North Dakota, South Dakota, Kansas, Nebraska, Iowa, and West Virginia. At the other extreme, in 15 states rural residents in growing counties outnumber those in declining ones by at least 10:1. Washington, for example, has a million rural residents in growing counties but only 2,400 rural residents in declining counties. In Wisconsin it is 1.1 million versus 41,000. Table 2 shows the numbers for each region of the country. Even in the Plains, the rural residents of growing counties outnumber those in declining counties almost 2:1.

Table 2. Rural population in declining, stable, and growing counties by region, 2000-2005

<table>
<thead>
<tr>
<th>BEA Region</th>
<th>In Declining</th>
<th>In Stable</th>
<th>In Growing</th>
<th>Grow-Decline</th>
<th>G-D Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast</td>
<td>2,202,324</td>
<td>5,768,984</td>
<td>13,522,165</td>
<td>11,319,841</td>
<td>6.1</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>1,071,823</td>
<td>3,994,356</td>
<td>5,010,448</td>
<td>3,938,625</td>
<td>4.7</td>
</tr>
<tr>
<td>Southwest</td>
<td>531,332</td>
<td>1,297,458</td>
<td>4,076,375</td>
<td>3,545,043</td>
<td>7.7</td>
</tr>
<tr>
<td>Far West</td>
<td>147,126</td>
<td>359,439</td>
<td>3,646,424</td>
<td>3,499,298</td>
<td>24.8</td>
</tr>
<tr>
<td>Mideast</td>
<td>615,016</td>
<td>2,686,146</td>
<td>3,264,230</td>
<td>2,649,214</td>
<td>5.3</td>
</tr>
<tr>
<td>New England</td>
<td>40,710</td>
<td>613,223</td>
<td>2,048,494</td>
<td>2,007,784</td>
<td>50.3</td>
</tr>
<tr>
<td>Plains</td>
<td>1,554,457</td>
<td>1,871,392</td>
<td>2,791,638</td>
<td>1,237,181</td>
<td>1.8</td>
</tr>
<tr>
<td>Rocky Mountain</td>
<td>267,944</td>
<td>316,439</td>
<td>1,365,654</td>
<td>1,097,710</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Why then do we tend to focus on rural decline? Part of the answer is that we have misled ourselves because of the way we analyze growth of metropolitan and nonmetropolitan counties. We pick among three ways of running the numbers: comparing then and now, looking backward, and looking forward. Comparing the non-metropolitan populations of 1970 and 2000 (or then and now) reveals a 23% decline while the metropolitan population increased 66%. Those numbers are correct—fewer people now live in non-metropolitan counties—but any inference that the non-metropolitan counties declined is wrong. Over 600 formerly non-metropolitan counties have become metropolitan counties. Thus, comparing the 1970 and 2000 non-metropolitan counties means comparing 2,659 counties to 2,049. What looks like a 23% population loss is merely the result of reclassifying counties, largely because of their growth.

Looking backward is perhaps the most common perspective we take. Using the current OMB designations reveals that today’s non-metropolitan counties grew 25% over the three decades since 1970 while today’s metropolitan counties grew 42%. The obvious inference, with the common substitution of urban for metropolitan and rural for non-metropolitan, is that rural areas lag behind urban areas.

The most useful statistical perspective is rarely adopted. Its starting point is the OMB categories from 1971. Looking forward, the non-metropolitan counties of that time would grow faster than the metropolitan...
counties, 44% versus 36% between 1970 and 2000. The non-metropolitan counties of 1970 that would be reclassified as metropolitan grew fastest of all, 73%. Those that stayed non-metropolitan grew 25%. Looking forward, alone among the three perspectives, paints a picture of dynamic non-metropolitan growth. The glimpses of lag and decline from the other perspectives form an incorrect policy guide. Growth dominates, not lag or decline.

Yet, non-metropolitan numbers are suspect as an indicator of rural growth because they ignore the already stated fact that half the nation’s rural people live in metropolitan areas. We do not have readily available, consistent data over time for urban and rural areas to make possible calculations like those just presented for non-metropolitan areas (Isserman 2005).

Another scheme for assigning counties brings us closer to understanding rural growth. It recognizes that most counties combine urban and rural populations and designates as rural a county whose population is 90% in rural areas or that has no urban area of 10,000 or more, as well as having fewer than 500 people per square mile (Isserman 2005). Looking forward, the rural counties of 1970 grew 43% in population, compared to 19% and 28% for the two most urban county categories (Table 3). The fastest growth, 63%, occurred in mixed rural counties, a category that includes counties with more than 10,000 urban residents but fewer than 320 people per square mile. Rural counties that stayed rural between 1970 and 2000 grew 24%, while those that added so much urban population that they no longer qualified as rural and changed categories grew 91%.

Table 3. Rural and urban population change, three county-based perspectives, 1970-2000

<table>
<thead>
<tr>
<th>County Designation</th>
<th>Comparing Then and Now</th>
<th>Looking Backward</th>
<th>Looking Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-metropolitan</td>
<td>-23%</td>
<td>25%</td>
<td>44%</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>66%</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Rural</td>
<td>-7%</td>
<td>24%</td>
<td>43%</td>
</tr>
<tr>
<td>Mixed Rural</td>
<td>31%</td>
<td>52%</td>
<td>63%</td>
</tr>
<tr>
<td>Mixed Urban</td>
<td>29%</td>
<td>58%</td>
<td>28%</td>
</tr>
<tr>
<td>Urban</td>
<td>65%</td>
<td>27%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Looking forward is the correct perspective for rural policy. Policy is concerned with the future, with how conditions will evolve. The great majority of the rural population is and will be coping with the opportunities and problems caused by growth. That is how it has been for decades or more, that is how it will continue, and that is what rural policy should recognize.

This argument that rural policy should pay attention to future growth is not an argument for ignoring rural decline and distress. There are several hundred growing rural counties, several hundred stable rural counties, and several hundred declining rural counties (Table 4). Two-thirds of the rural counties within metropolitan areas grew at least 2%, as did about one-third of the rural counties not linked to an urban core. Each context brings with it important policy issues.

Good state policy recognizes the full range of rural contexts in the state as well as the state’s urban-rural geography. Only then can programs be designed that deliver services to the places where they are needed and to the people they are intended to serve.

Craft Program Eligibility Rules Carefully

The two federal statistical systems, urban/rural and metropolitan/micropolitan/non-core based, can be combined in many ways to specify program eligibility. The urban area size groups shown in Table 1 and the categories in Table 4 hint at the many possibilities, and they are augmented by the rural-urban continuum and urban influence codes of the U.S. Department of Agriculture, which assign metropolitan and non-metropolitan counties to subcategories, such as non-metropolitan county with urban population of 2,500 to 19,999 and adjacent to a metropolitan area.
Table 4. The diversity of policy contexts, population change by county type, 2000-2005.

<table>
<thead>
<tr>
<th>County Type</th>
<th>Character</th>
<th>OMB</th>
<th>Number of Counties</th>
<th>Total Population Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Declining</td>
<td>Stable</td>
</tr>
<tr>
<td>Rural</td>
<td>All</td>
<td>1355</td>
<td>559</td>
<td>413</td>
</tr>
<tr>
<td>Rural</td>
<td>Non-core</td>
<td>131</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>Rural</td>
<td>Micro</td>
<td>304</td>
<td>17</td>
<td>77</td>
</tr>
<tr>
<td>Rural</td>
<td>Metro</td>
<td>555</td>
<td>95</td>
<td>213</td>
</tr>
<tr>
<td>Mixed Rural</td>
<td>Micro</td>
<td>467</td>
<td>20</td>
<td>102</td>
</tr>
<tr>
<td>Mixed Rural</td>
<td>Metro</td>
<td>146</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Mixed Urban</td>
<td>Metro</td>
<td>172</td>
<td>20</td>
<td>55</td>
</tr>
<tr>
<td>Urban</td>
<td>Metro</td>
<td>133</td>
<td>55</td>
<td>35</td>
</tr>
</tbody>
</table>

The choices among the federal statistical categories determine which urban and rural residents are eligible. Some programs use non-metropolitan areas as the eligibility criterion, defining non-metropolitan as micropolitan and non-core based counties. Doing so qualifies 20 million urban residents nationally and disqualifies 30 million rural residents. Another common practice uses urban areas with 50,000 or more residents as the eligibility cutoff, which leaves 30 million urban residents eligible as well as all rural residents (see Table 1). Using urban areas of 10,000 as the cutoff creates 11 million eligible urban residents. In an extreme case, the Social Security Act defined rural as anything outside an urban area of 1 million or more people. That rule designated 107 million urban area residents and all rural area residents, but its intent was not to serve medium sized cities and rural areas. Quite the contrary, it disqualified “rural” hospitals from the higher reimbursement rates to be paid in the largest urban areas.

There is no need to settle on a single definition of program eligibility for all state programs. Intent of the program matters. All rural areas are not in the same situation, and residents of small urban areas might be in the same situation as some rural residents. For example, assume the intent of a telemedicine infrastructure program is to enable state residents to take advantage of the specialized diagnostic capabilities of the state’s city hospitals. Depending on the state, a reasonable eligibility rule might be non-metropolitan areas. Rural residents within metropolitan areas presumably can access hospitals in the urban core just as they do jobs there, so smaller hospitals and clinics outside metropolitan areas might have higher priority for telemedicine equipment. Other programs might have different eligibility requirements because they serve different goals, places, and populations, provide different services, and face different political, budgetary, and geographic realities. For instance, a state program that provides funds for rural school transportation might qualify rural schools within metropolitan areas because the school service area is local. It might also qualify urban areas up to a particular size because they face similar problems bringing students to school from large catchments areas. A community development program might make eligible rural areas and all cities with up to 50,000 residents because larger cities already receive federal entitlement funds. Eligibility decisions have political and budgetary implications in terms of the numbers of legislative votes they can attract and what the program will cost, so eligibility can become a matter of negotiation. The choices are many: all rural areas, only those above a certain poverty level, urban areas below a certain population, non-core counties only, and so on.

One rule might not fit all states, even for the same program. The logic of restricting a rural telemedicine program to non-metropolitan counties because rural residents of metropolitan counties can go to the urban hospitals makes little sense for, say, Arizona. With 18,000 square miles, Coconino County is twice the size of the state of Maryland. It is metropolitan because of the Flagstaff urbanized area, whose 57,000 residents occupy 32 square miles of the vast county. Making the 42,000 rural residents of Coconino County ineligible for rural telemedicine because a city exists somewhere within the 18,000 square miles seems wrong. The one thousand residents of the small town of Fredonia, for
example, are 194 miles from Flagstaff. Paying careful attention to the state’s urban-rural geography makes it less likely that intended beneficiaries will not be served as the results of sloppy eligibility rules.

State policy makers have the responsibility—and opportunity—to craft eligibility rules that make sense for the particular program and the unique urban-rural geography of the state. The Census and OMB categories together permit considerable flexibility in tailoring eligibility requirements to suit the program’s realities and to reach the people and places the program is designed to serve. The danger is being oblivious to the different ways that rural can be defined and to the consequences of adopting a particular definition. Ignoring the need to define rural and program eligibility carefully can compromise a program’s purpose by unintentionally disqualifying targeted people and places and undermine a program by increasing its costs by entitling people and places not intended to be its beneficiaries.

References


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