



GEARING UP FOR SUCCESS: Organizing a State for Rural Development

**By David W. Sears, John M. Redman,
Richard L. Gardner,
and Stephen J. Adams**



The Aspen Institute
State Policy Program

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Preface

The authors were fortunate to participate, in a variety of ways, but primarily as observers, in a recent Rural Policy Academy conducted by the Council of Governors' Policy Advisors.¹ This Academy created a fertile work environment, at two separate times in the spring and summer of 1990, for top level policy teams from each of ten states. We were privileged to watch—close-up, warts and all—ten states struggle with both the substantive and organizational questions of developing and implementing rural development policy. This experience led us to believe that it would be useful to put down in one place, in a logical and clearly articulated form, the key issues that such state policymakers must face. This book is our attempt to do exactly that.

The Academy brought together teams of top-level policymakers from Arkansas, California, Iowa, Maine, Michigan, Missouri, Mississippi, North Dakota, Pennsylvania, and Wyoming. Mark Popovich was the Academy's project director. The goal was to develop implementable rural strategies for the states.

This book also draws, to a lesser extent, upon our observations of the federal government's State Rural Development Council initiative. This program promotes improved coordination of the state and federal government rural development activities within eight pilot states: Kansas, Maine, Mississippi, Oregon, South Carolina, South Dakota, Texas, and Washington. The initiative is expanding in 1992 to include other states.

The 1990 Rural Policy Academy brought together top-level policy teams from ten states

Executive Summary

Over the past dozen years or so, state governments have become central players in addressing the problems faced by America's rural communities. It seems likely that they will continue to play crucial roles in rural development into the foreseeable future. The purpose of this book is to provide states—and their rural development partners—with some guidance that will better enable them to create and implement successful rural development strategies.

This is not a cookbook—the reader will find no magic recipe for rural development here. And those who have already spent some time working on rural issues are not likely to find any major breakthroughs in this book. Instead, what is presented here can be viewed as a **well-organized checklist** of important items that a state will want to go over as it prepares to undertake a significant new rural development effort, or as it prepares to substantially evaluate and update an ongoing effort.

The insights that are offered in this book benefitted greatly from the authors' experience, as close-up observers, at the 1990 Rural Policy Academy conducted by the Council of Governors' Policy Advisors.

When a state is ready to begin to organize itself for rural economic development, eleven key choices must be made. We have grouped these choices into three categories:

1. Setting the ground rules for planning rural development;
2. Establishing relationships with other key public sector players; and
3. Setting the ground rules for implementation.

When **setting the ground rules for planning rural development**, four choices must be made.

- **First:** What kind of **goal setting** should the state engage in? Because of the internal disagreements

that will arise among various participants, agreement on an explicit set of goals may be very difficult for many states. Nevertheless, a failure to achieve consensus on goals should be seen as a major shortcoming of the planning process because this failure is likely to result in implementation problems later on.

- **Second:** During the planning process, should the state take a comprehensive approach, where all **links among programs** are examined, or the fractional approach, where many of these links are not considered? Under the comprehensive approach, interrelationships can be worked through in a systematic fashion. More ways of achieving rural development objectives can be considered, and new, more appropriate institutional arrangements may emerge. The problem with the comprehensive approach is that power in state governments is often disaggregated into fairly autonomous fiefdoms, making this approach intellectually satisfying but politically frustrating or irrelevant.
- **Third:** What should be the **breadth** of the planning effort? State decisionmakers may choose to develop a separate rural development strategy or to incorporate activities aimed at enhancing rural development into a unitary state economic development plan. With the unitary approach, rural development isn't sidelined or ignored in making key decisions about the overall state economy. The disadvantage of the unitary approach is that it may overlook the unique needs and problems of the state's rural areas. A state may choose a compromise approach in which major pieces of the state's rural development actions are integrated into an overall state development plan while some uniquely rural problems (e.g., health care delivery to low density regions) might be handled outside that plan.
- **Fourth:** Should the state emphasize **people or places**? That is, should the state focus on improving the prospects for rural people or for rural places? Since the welfare of individuals is the presumed

ultimate end of all government activities, an emphasis on people seems to be the logical answer. On the other hand, the advantage of an emphasis on places is that this most precisely meshes with what most people envision as rural development—an effort to protect or enhance the economic viability of rural communities. Many states will probably want to design a rural development strategy that is a mix of both.

Three choices must be made when establishing relationships with other key public sector players.

- **First:** To what extent should the state coordinate with the **federal government**? Strong coordination can stretch the state's limited resources, allowing the state to focus on plugging those high priority holes not covered by federal resources. On the other hand, the time and energy devoted to coordination may sap scarce resources and produce few benefits.
- **Second:** To what extent should the state coordinate with **other governments** such as local, regional and tribal governments? These other governments often will have important resources—goods, services, knowledge—to bring to the table.
- **Third:** What will be the appropriate level for program implementation? Possibilities include implementation through **communities, clusters of communities, or regions**. Allocating resources to individual communities will enable the state to consider the unique characteristics of specific rural localities. Implementation at the cluster or regional level will mean that conflicts among communities will have to be handled, perhaps leading to greater cooperation and a more efficient use of available resources.

When setting the ground rules for implementation, four choices must be made.

- **First:** What sort of **targeting** should the state engage in? Targeting involves the allocation of certain state resources to those localities, or industrial sectors or

individuals with characteristics that make them especially attractive or worthy recipients. To what extent should the state's rural development strategy be targeted? Should targeting focus on specific geographic areas or industrial sectors? If targeting is chosen, on what basis should resources be targeted? Should resource allocation be based on need as reflected in a weak economy or on good prospects for growth? One advantage to targeting resources carefully is that the state's limited resources should go further in achieving the state's rural development goals. The disadvantage of targeting is that such thoughtful selection may be politically difficult to carry out. The danger of not targeting is that certain sectors or areas of the state meriting special attention, usually because of poor economic performance or good economic opportunities, will not get that attention. Unless some degree of targeting is involved, it may be hard to justify a rural development strategy.

- Second: How should the **service delivery structure** be designed? Four models are posed:
 1. Direct-service delivery by a single public agency;
 2. Competition among service providers;
 3. The use of public dollars to "leverage" private sector resources for service delivery; and
 4. Private sector service delivery stimulated by a one-shot public sector investment.

These four models are not mutually exclusive; many hybrid possibilities exist. A state may want to choose different models for different aspects of its delivery of services in support of rural development. The overriding consideration will be how the state can most effectively stretch its resources.

- Third: Should the state assert tight or loose control over **local use of state funds**? Tight control assures that, for a state that "knows what's needed" to promote rural development, implementation is straight-forward and not muddied by getting localities

involved. The benefit of loose control is that those closest to the action—the localities—can select those activities that they believe will be most likely to stimulate development, without interference from the state. These communities might also feel a greater sense of pride of ownership in the implemented projects. A compromise is the *smorgasbord* approach, where the state offers an array of programs, each of which will be useful to some (but not all) communities. Each locality can choose programs that it believes will be most useful for its economic development.

- **Fourth: Should the state take an active or passive approach to local capacity building?** Capacity building is aimed at developing knowledgeable local leadership that can respond to or create opportunities for economic development. A state taking an active role in capacity building would provide the resources to enable localities to build their intellectual and organizational capacity to carry out economic development. The state would encourage communities to take advantage of the pertinent state programs. The passive approach would let communities take the initiative to seek out and participate in state capacity building programs.

There are no universally *correct* answers to the eleven choices just discussed. After careful consideration of the issues, different states will come to different conclusions. In contrast, here are nine principles that all communities should abide by:

- 1. Build upon previous work**—It is often unnecessary to start from scratch in thinking about rural development;
- 2. Conduct a detailed analysis of the economy**—The state must know how the key sectors of the rural economy are positioned in the domestic and world economy and how that position limits or offers expanded opportunities;
- 3. Build upon the existing economic base**—Often a state will do well to do what it has been doing in recent years, but to do it differently;

4. **Conduct an institutional scan**—An array of institutions, in both the public and private sectors, might contribute to a rural development strategy;
5. **Create partnerships**—Getting knowledgeable input from the private sector will produce strategies that are both stronger and more strongly supported;
6. **Be politically realistic and astute**—The success of a rural development strategy will depend as much upon its political support as its operational design;
7. **Establish priorities**—Only by moving beyond a “laundry list” of proposals to clear-cut priorities will the state be able to focus its limited resources upon the actions that are seen as absolutely critical;
8. **Limit the immediate objectives**—Few long-term victories can be won without a number of short-term victories along the way to build and sustain support for rural development; and
9. **Build in evaluation and use it**—The state should use evaluation results to decide whether various pieces of the current rural development approach make sense exactly as implemented or might be modified to become even more effective?

The importance of states' activities to stimulate rural economic development is greater than it has been at any time in recent history, and the challenges are perhaps more daunting than before. Despite the enormity of the task, states can make a real difference in this critical policy area. Patience and persistence, however, are mandatory.

Chapter 1. Organizing for Rural Development— An Overview

Rural development policy should solve—or, at least, attack—the “rural problem.” While this may sound straightforward, it’s not. There is no single widely-agreed-upon rural problem. Across the nation, and even within a state, different communities and different regions face different problems. For example, in some rural areas outmigration is the dominant problem, but in other areas rural poverty is the problem, while in still others the control of tourism-related growth is the key problem. More importantly, even within a single rural community, conversations with several individuals and groups will reveal a range of perceptions of the problem that should be addressed.

Different communities and different regions face different “rural problems”

A critical question, in organizing for rural development, is deciding whom to bring to the table for the discussion. Both those with the needs (as reflected in the rural problem) and those with the resources (to attack the rural problem) should participate. When thinking about who should participate in working on a rural development strategy, it is best to assume that no one definition of the rural problem is *right*. Thus, it will be important to get a wide range of actors—with a variety of perspectives on the rural problem—involved.

Among these actors, state government often plays a central role in the rural development process. If all key players in state government sat down one day and asked themselves what they could, or should, do to stimulate rural economic development in the state, they would have to decide how to organize that effort. Much current state government activity probably does, in fact, contribute to rural development, but it has not been guided by an overall rural development strategy.

State government often plays a central role in rural development

Regardless of how many rural-related programs a state may have today, key players could meet and determine

the best way to further organize and/or reorganize state resources. State government players may want to work with others in this process. For example, a State Rural Development Council formed under the federal initiative will develop a partnership of federal, state, local and tribal governments, as well as the private sector.

There is no single right way for a state to carry out rural economic development

There is no single *right* way for a state, alone or with some partners, to carry out rural economic development. The state's specific economic, social, cultural, organizational, and political context will provide opportunities and set constraints that must be taken into account. In other words, what works well in one state might not work in another.

Nonetheless, the discipline imposed by the Rural Policy Academy process—or some other carefully-designed systematic approach—may prove useful to any state about to craft a rural development strategy. States will want to sort through options so that they can choose “more promising” rather than “less promising” ways of organizing for rural economic development.

When a state, along with any partners, begins to organize itself for rural economic development, eleven key choices must be made. If these choices are not made explicitly, they will be made implicitly. We have divided them into three major categories:

1. Setting the basic ground rules for planning;
2. Establishing relationships with other key public sector players; and
3. Setting the basic ground rules for implementation.

A final decision never has to be made on any of these eleven choices. Each choice is subject to later re-evaluation. Over time, many of the choices made will probably be modified.

To simplify our presentation, we have described in the following pages a situation in which the state government is working alone on the problems of rural development. This should not be construed to imply that we recommend that states work without federal and local

governments and other partners. On the contrary, such partnerships will have some distinct advantages as we will show in this book.

Figure A

Organizing for Rural Development: 11 Key Choices

Setting the Ground Rules for Planning Rural Development

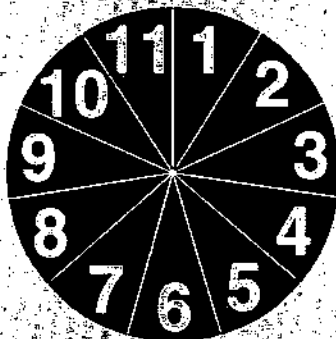
- 1. Should Goals Be Implicit or Explicit?
- 2. Should Programs Be Linked by a Comprehensive Approach?
- 3. How Broad Should the State's Economic Development Plan Be?
- 4. Should the State Focus on People or Places?

Establishing Relationships with Other Key Public Sector Players

- 5. How Can the State Work with the Federal Government?
- 6. How Can the State Work with Local, Regional, and Tribal Governments?
- 7. At What Sub-State Level Should Programs Be Implemented?

Setting the Ground Rules for Implementation

- 8. What Should Be the Extent of, and Basis for, Targeting?
- 9. How Should Services Be Delivered?
- 10. How Much Control Should the State Assert?
- 11. Should the State Actively Develop Local Capacity?



Chapter 2. Setting the Ground Rules for Planning Rural Development

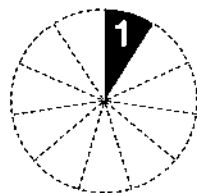
Should Goals Be Implicit or Explicit?

Establishing explicit, outcome-oriented goals can be a useful early step in developing a rural strategy. These goals can capture a vision of a better rural future in concrete, measurable terms. In addition, these goals can serve as a guide for all subsequent decisions affecting rural people and places.

Individual state programs probably have explicitly stated goals. For example, a secondary roads program might be aimed at "providing safe and efficient transportation for the state's populace." On the other hand, different state programs that together might contribute to rural economic development are probably not held together by an explicit over-arching set of goals because the programs were not originally intended to be part of a coherent rural development initiative.

Goal-setting may be the most important task that a state team faces as it develops a rural development strategy. Several of the Rural Development Policy Academy teams spent a good deal of energy trying to define such an overall set of goals. Nevertheless, as simple as this activity might seem, it is often not easy to gain agreement on a single coherent set of goals.

The difficulties officials face when trying to agree on rural development goals can be illustrated by the discussion surrounding a proposal that *job creation* serve as the core goal. At first glance, job creation seems like a goal that all parties could agree upon. But then the debate begins. What types of jobs and at what cost? Some might dismiss tourism jobs because wages are often low. Others may want to emphasize environmental/amenity protection, a goal they see threatened by an emphasis on job



Explicit, outcome-oriented goals can capture a vision of a better rural future

What Is Rural?

For most Americans, the concept of *rural* brings to mind images of agriculture—cows grazing in open meadows and corn lined up in neat rows as far as the eye can see. The true shape of the rural United States is hardly so homogenous. A careful look at rural America will reveal not just farmlands but mines and oil wells, woodland, industrial centers, government facilities, exurban subdivisions, resorts, and retirement communities. Within this diversity, however, certain common features are widely shared.

The first commonality is low density. In brief, rural America is that part of the nation that is populated sparsely. It is not important here that we select a single precise definition of rural. A rough definition would include all sparsely settled places in remote locations, and perhaps some small cities and towns outside metropolitan areas. It may also include some of the sparsely populated edges of metro areas. Different states will choose their own definition as appropriate and useful.

Historically, rural economies have generally been built upon a foundation of natural resources such as farmland, timber, minerals, as well as attractive landscapes. The manufacturing and service industries in rural areas are often directly tied into this natural resource base. This strong linkage to a fixed natural resource base is another commonality that cuts across the diverse array of rural communities.

Some definitions say rural is anywhere outside of an "urban place." Others label rural as non-metropolitan counties. Still other definitions are stated in terms of population densities. Disagreements are based as often on data availability as on philosophical or theoretical debates. Heated debate over the details of the definition often serves little purpose. Political considerations may play a part in determining what definition is used for program eligibility. For instance, to get more political support, a broader definition of rural may be preferred over a narrower one.

Four types of places in the United States can be imagined.

1. Large cities and their adjacent suburbs;
2. Small towns and urbanized areas not part of a metropolitan area;

3. Sparsely populated areas inside the boundaries of metropolitan areas; and

4. Sparsely populated areas outside metropolitan areas.

Under no definition would the first type of place be called rural. And under all definitions, the last type of place would be rural. The conceptually "in-between" places—the second and third types—are those that will be handled differently under different definitions.

creation. Some participants might support a general goal explicitly encompassing improved rural health, housing and safety. Yet, others—those skeptical about the practicality of a comprehensive approach—might favor a narrower goal statement (e.g., employment or income growth), so that limited resources might be better focused or that fewer actors need be involved.

Still another complication faced in many states is the intrastate diversity of rural areas. Dramatically different situations are likely to lead to dramatically different concepts of appropriate rural development goals. In California, for instance, rural areas fall largely into two groups: places that are located along the coast or in the fertile central valley which are under heavy developmental pressure, and places that are located in the remote northern mountains which face the unemployment and weak economy problems of timber-dependent communities. From the outset, the California Rural Academy team was challenged by the different needs of these two distinct types of communities. In a state like California, then, agreement among major rural interests on development goals is made more difficult by the wide range of intrastate rural diversity. However, some states, like Wyoming, do not have such stark contrasts among distinct types of rural areas.

Agreement on development goals is made more difficult by a wide range of intrastate rural diversity

Legitimate disagreements may exist within a state on whether its rural development goals should be stated in terms of substantive targets or process targets. Some may see that substantive goals (e.g., an attempt to improve the

number or quality of rural jobs) are most appropriate, while other participants may be interested in process goals. To those focusing on process, rural development goals encompass the creation of new or improved institutions that will better promote rural development in the state. "Improving the capacity of local communities to take charge of their own development," which some Policy Academy states chose as a goal, is a good example.

Turf issues, biases, personality clashes and other barriers can get in the way of developing a consensus

Further complicating the achievement of agreements are a variety of barriers that may get in the way of developing a consensus. Turf issues, biases, personality clashes, and concerns about the competency of other agencies can surface during the goal-setting process. Often, policymakers may be so focused on their own programs that they are unable or unwilling to step back and see the larger picture.

When faced with such barriers, a team can choose to skirt the issues while building only a weak consensus around a set of goals or have the team agree upon meaningless grandiose goals ("to improve rural conditions in the state"). Still another approach is to include something for everyone in the goals. This avoids establishing priorities, which may keep the peace, but is not helpful when it comes to implementation. Any of these approaches would enable the team to claim that it had set goals but would not resolve the underlying conflicts within the team.

There are two advantages to getting agreement on a set of explicitly-stated goals. First, its existence makes it easier for all to see what specific state actions will help in achieving these goals—and which won't. Second, the goal development process is likely to force interdisciplinary, cross-cutting discussions. This process cannot help but improve the quality of policy analysis, forge interagency ties, and improve trust and mutual respect among team members. Similarities and differences among team members are better defined as the participants ask tough questions of their peers and respond with thoughtful answers. Possible outcomes of such discussions might include (a) raising the possibility that the state's environmental protection agency could consider economic

development impacts as a criterion for selecting specific water and wastewater treatment investments, and (b) considering the benefits of combining funds from secondary education programs, job training programs, and unions to support a youth apprenticeship initiative.

The primary disadvantage of reaching agreement on a single over-arching set of goals is that the process of creating them may involve battles among interests with ardently held perspectives. The outcome of such battles may be only a weak consensus on the goals, increased animosity among the protagonists, and a sense of frustration that so much time was spent with so little benefit. More than one Academy team grappled with goal achievement for the better part of a full-time week, only to fail to reach much consensus. This failure contributed in some cases to reduced team morale and, we suspect, to the decisions of several individuals to end further Academy participation. Close observers of the eight pilot State Councils in 1991 believe that most will not be able to easily reach agreement on a single over-arching set of goals.²

Goal-setting battles may lead to animosity, frustration, reduced morale

Therefore, in a variety of circumstances, agreement on a set of explicitly-stated rural development goals simply may not be worth the effort. Nevertheless, a failure to agree on goals should be viewed as a major shortcoming, and all key players should recognize that such a failure may eventually lead to a rural development strategy that is merely a laundry list of more "good ideas" than can be implemented. For example, a number of Academy teams—but not all—each enumerated several dozen unprioritized rural development objectives. This "something for everyone" approach is useful in avoiding conflicts, but not of much use in helping to determine the state's emphases in rural development.

A failure to agree on goals should be viewed as a major shortcoming

One final observation with respect to goal-setting is that the state government—even if working in conjunction with some public and private sector partners—should not be overly grand in its assumptions about the influence that it can exert over the regional economy. The state's role will often, at best, be one of tinkering "on the margins." A rural development strategy that makes unrealistic assump-

tions about the state's ability to control rural development is not likely to be a useful tool. Goal-setting should occur within a pragmatic understanding of the limits of the state's power.

What Problems and Opportunities Are to be Found in the Rural Economy?

Many rural areas are characterized by relatively poor performance on a variety of economic and social indicators. Frequently, job growth, earnings per job, average income levels, educational levels, skill levels, and indices of public health are lower than in metro areas. In addition, when compared to metropolitan areas, rural economies often are more narrowly specialized, possess lower quality infrastructure, provide less access to common public services and offer fewer cultural amenities.

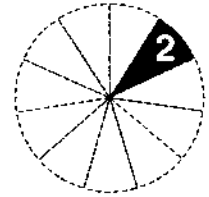
While rural economic conditions are often poorer than urban conditions, rural places frequently have some relative advantages. The attractive rural landscape and/or lower pressure rural lifestyle may appeal to tourists and retirees, as well as to commuters who wish to work in the city or its suburbs, but live in lower density areas. Clean air, relatively low crime rates, and a lower cost of living are other attractions. Some footloose firms (i.e., those that do not have to locate near suppliers nor customers) and start-up entrepreneurs may be attracted to—or wish to stay in—rural areas for many of these same reasons.

Also, low population density may make rural areas more suitable for a handful of somewhat undesirable activities such as prisons, waste disposal facilities and electric generating operations. Furthermore, the generally lower wages of rural areas continue to appeal to a range of lower skill, labor-intensive manufacturing industries. Some rural places with relatively low wages but moderately skilled/educated workers have been successful in attracting some skilled or semi-skilled service functions such as accounting, telemarketing, and claims processing that have been traditionally performed in metro areas.

The local balance between problems and opportunities varies dramatically across rural areas of the United States. In some rural areas, only an optimist or imaginative local leader can see much in the way of economic opportunities. At the other extreme, in a minority of rural communities, the major problem is controlling and/or adapting to the economic growth that is occurring.

Should Programs Be Linked by a Comprehensive Approach?

A state might choose a comprehensive approach to rural economic development where all major aspects of rural development (health care, education and training, infrastructure investment, resource management, environmental protection, job development) would be considered in relation to one another and melded into a single strategy. Team members may choose this approach because they think it is the best way or because were instructed to do so by the governor or key legislators.



The alternative would be to create separate strategies for different aspects of rural development on an as-needed basis. Under the fractional approach, for example, the state might develop an education strategy one year in response to a court case mandating greater equity among school districts, and then, in the following year, develop a rural health care strategy because of the closing of several small rural hospitals. At the same time, the state might have no strategy for the development of rural wastewater treatment facilities. The Maine Policy Academy team, for instance, focused its attention on only two high priority areas of rural development—local capacity building and infrastructure. The shortcoming of this fractional approach is that opportunities will be missed. Take health care strategists for example. With no input from educators, they may overlook opportunities to encourage an interest in the health sciences among rural students and to provide continuing education to rural nurses through local school district distance learning hookups.

Under the comprehensive approach, the interrelationships among various activities can be worked through in a systematic fashion, and a variety of ways to achieve objectives of rural development can be more easily considered. Look at the difference in the approach to improving rural education. Under a fractional approach, a state that wanted to improve the academic performance of rural students might consider only curricular or staffing issues under the jurisdiction of the state Department of Education. In contrast, under a comprehensive approach,

Under the comprehensive approach, interrelationships among activities can be worked through systematically

many activities beyond the boundaries of the Department of Education would be considered as potential contributors toward the goal of improved rural academic performance. Thus, discussion of educational options would cut across administrative departments and programs to include (for example) improvements in public libraries, public radio and television programming, student nutrition, adult education to improve parenting skills, pre-school educational programs, day care, youth apprenticeship programs and entrepreneurial training.

The comprehensive approach may even lead to new and more appropriate institutional arrangements. The Iowa Academy team proposed, for instance, the establishment of a state-level process to create and enhance linkages among a wide variety of economic development programs including public and private sector programs outside the realm of state government, thereby moving the state from a fractional approach to a more comprehensive approach.

Power within state government is often divided into autonomous fiefdoms

The problem with the comprehensive approach is that power—and thus decision-making—in state governments often breaks down into fairly autonomous fiefdoms. This makes the comprehensive approach intellectually satisfying, but politically frustrating and/or irrelevant. For example, some state agency heads report to an independent board rather than to the governor, and some agencies have funding from a dedicated revenue source outside the normal budget process. This means the governor will have some difficulty in directing such agencies to modify their activities so that they mesh into a comprehensive rural development strategy. As Doug Ross, former Michigan Secretary of Commerce, is fond of saying: "Coordination is an unnatural act between nonconsenting adults."³ Nevertheless, the ability to coordinate, and the incentive to do so, may be greater in sparsely populated predominantly rural states with relatively smaller bureaucracies. The North Dakota Academy team, for example, was able to bring many of the state's key rural policy players together in a single room; this would undoubtedly prove to be more difficult in most larger states.

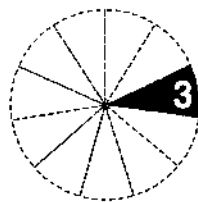
What Is Economic Development?

Economic development can be defined in a variety of ways which means part of the struggle in coming to grips with rural economic development is deciding how broadly to focus the effort. A narrow definition might include those activities intended to move a region toward full employment. A broader definition might focus on the attainment of a minimum income level for each local resident. Still more broadly, economic development can be aimed at improving not only employment and income levels but also the physical and cultural attributes of local life. Thus, some of the results of economic development might include a cleaner environment, access to a broader range of health care services, and improved access to the arts. Under the broadest definition, economic development could be seen as an ongoing process of building and maintaining local and regional institutions (e.g., business, educational, health, transportation) which not only generates an acceptable quality of life today but promotes continued and/or enhanced viability into the future.

How Broad Should the State's Economic Development Plan Be?

State decisionmakers may choose to develop a separate rural development strategy or incorporate rural development activities into a unitary state economic development plan. In Wyoming, for example, where the state is predominantly rural, the Policy Academy team chose to develop a unitary plan. In California, on the other hand, a predominantly urban state, the special needs and problems of its rural economies might very well get lost in a unitary plan.

With the unitary approach, rural development doesn't get sidelined or ignored when key decisions are made about the overall state economy. When the focus is on a separate rural strategy, in some states the entire strategy is in danger of being overlooked. The Pennsylvania Rural Policy Academy team had difficulties along these lines. In a state dominated by the Philadelphia and Pittsburgh metropolitan areas, the team had trouble getting the attention of the governor and some key legislators for a strictly



With a separate rural strategy, in some states the entire strategy may be overlooked

rural development strategy.⁴ Another advantage of the unitary approach is that the linkages—which may often be of prime importance—between the state's metro and non-metro economies can be more readily acknowledged and built upon under a unitary approach. The state of Washington, for example, has established a system of *brokers* to match rural producers and urban firms needing those products. It would be easier to continue and augment these linkages under a unitary approach. Similarly, rural transportation needs might often be best served when linked into urban transportation needs. For example, in the area around Washington, D.C., commuter train service that will extend well into the non-metropolitan hinterland is being developed as part of an overall regional transportation initiative.

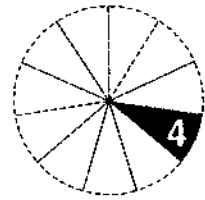
The unitary approach may ignore unique rural needs and problems

The disadvantage of the unitary approach is that it may overlook the unique needs and problems of the state's rural areas. For example, without a special focus on rural areas, a state tourism marketing plan may benefit only a few large cities and resort areas and bypass most rural communities.

Many states may choose a compromise approach under which major pieces of the state's rural development actions, such as training and education, could be integrated into an overall state development plan, while some uniquely rural problems, like health care facilities and services for low density areas, might be handled outside that plan. Both Idaho's and Iowa's general approach to rural development follows such a model. In its recent 1991-95 economic agenda, Idaho devotes some effort to overall state development but focuses special attention on the tourism development and economic diversification requirements of small rural towns. In Iowa, much rural development is well integrated into the state's overall development plan and service delivery system. However, the state government also encourages the formation of "clusters" of small rural communities as alternative delivery mechanisms in sparsely populated areas. These clusters can, if they wish, provide or obtain shared services such as job development, housing, health care, child care, and education that are beyond the reach of any individual community.

Should the State Focus on People or Places?

Rural development can emphasize *people*. Here, policymakers might say “the problem is that rural families have to live on extremely low incomes” or “what can we do to improve the job prospects for current rural residents?” Or rural development can emphasize *places*. Thus, others might say “the problem is outmigration” and “what can we do to save our community?” Sometimes a rural development strategy will benefit both people and places. For example, rural public transportation will broaden the job opportunities for carless rural residents while allowing them to live in their hometowns. But often these objectives are in conflict. The most stark example of the conflict can be seen in state efforts to improve the education and skill levels of rural children and adults. Such an investment will improve the prospects for rural people, but by giving them skills and eligibility for higher paying jobs, it increases the likelihood of outmigration. “The best and the brightest” end up leaving non-vibrant rural places. Such outmigration might be minimized, however, if education and training programs were tailored to respond to the skill requirements of new and existing local employers. A recent comprehensive study concludes that upgrading skills through increased investments in education is appropriate if the objective is to improve the prospects of local residents, but may not work very well if the objective is to improve the prospects of the locality (McGranahan et al., 1991, pp. 1–12).



Sometimes a rural development strategy will benefit both people and places

Each state needs to decide whether to focus on improving prospects for people or for places in its rural development policy. The North Dakota Policy Academy Team, for instance, developed a rural development strategy that focused heavily on place. The state already has an excellent public school system with one of the highest graduation and literacy rates in the nation. The problem is a very high rate of outmigration from the rural parts of the state. The North Dakota team’s strategy was aimed at building economic opportunities within the state and even recruiting former residents back into the state.

*An emphasis
on places
meshes best
with what most
people envision
as rural
development*

Since the welfare of individuals is the presumed ultimate end of all government activities, an emphasis on people is most directly related to this end. On the other hand, the advantage of an emphasis on places is that this meshes most precisely with what most people envision as rural development—an attempt to protect or enhance the economic viability of rural communities. Many states will want to choose an overall state rural development strategy that is balanced by combining components that focus on people (such as retraining programs and relocation assistance for residents of depressed rural localities) with other components that emphasize places (such as upgrading wastewater treatment facilities in rural communities).

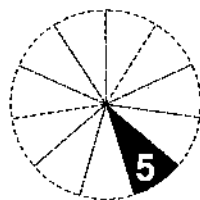
Chapter 3. Establishing Relationships with Other key Public Sector Players

How Can the State Work with the Federal Government?

Should the state government attempt to coordinate its rural development activities with those of the federal government? The states participating in the federally-stimulated State Rural Development Councils hope that such coordination will be a primary mechanism for achieving the state's rural development goals

Such coordination can stretch the state's limited resources because the state can focus on plugging those holes not covered by federal programs and the state can try to push federal resources into specific areas that the state can't handle. On the other hand, the time and energy devoted to coordination may sap scarce resources and produce few benefits. Another possibility is that the "coordinating partners" may not be fully committed to working together.

Under the State Rural Development Council effort, federal agencies are prodded to coordinate with each other and with state agencies, but the on-the-ground results across states and federal agencies remain to be seen.⁵ Nevertheless, anecdotal evidence of good state-federal cooperation emanating from State Council activities has surfaced. In South Dakota, for example, the Army Corps of Engineers and the Governor's Office are discussing the controversial issue of the appropriate recreational use of a dam-created lake. Prior to the Council-stimulated conversations, all dialogue between the parties had taken place in an adversarial setting—the courts. In a second example, the Maine State Housing Authority and the Farmers Home Administration are working on ways to coordinate their efforts to improve multi-family housing affordability in rural Maine because of discussions held during Maine State Council meetings.



Coordination with federal agencies can stretch the state's limited resources

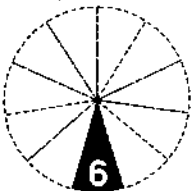
Retreat Locations

State rural development teams or State Rural Development Councils will often meet in or near the state capital. For meetings lasting a full day or less, this will prove to be the most efficient location for a substantial portion of the key players involved in the rural development effort. Occasionally, however, a multi-day *retreat* may be important to make progress. Getting away from the usual meeting place will have several advantages over the typical single-day meeting at the state capital. These include:

1. An ability of the participants to escape the day-to-day pressures of their jobs to focus on the longer-term and broader issues of the team;
2. An ability to collapse several months' worth of *regular* meetings into only a few days; and
3. An ability to establish a *team spirit* through intense discussions and *after work* socializing among team members which can create a positive working relationship for many months into the future.

The Rural Policy Academy had the ten state teams travel for such retreats to Minneapolis (the state capital for none of the ten) in April 1990, and to Sheridan, Wyoming (more than 300 miles from the Wyoming state capital, and further for the other nine states) in July 1990. The Rural Development Institute, associated with the federal initiative, conducted retreats for the eight pilot Councils in New Orleans (for four Councils) and in San Diego (for the other four) in March 1991. The eight pilot Councils then held in-state retreats in the summer of 1991. Six of the eight in-state retreats were held in relatively remote locations at some distance (150 miles or more) from the state capitals. The Mississippi State Council, for instance, met in Biloxi which is more than a three-hour drive from the state capital in Jackson. The South Dakota Council met in Lead, more than 200 miles from the capital.

How Can the State Work with Local, Regional, and Tribal Governments?



We believe that states will continue to play a central role in rural development into the foreseeable future. Thus, our focus is on the state government. However, we do not see the state as the only player. We recognize that

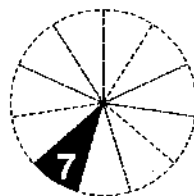
others have resources (goods, services, knowledge) to bring to the table. In fact, the state may find that a critical piece of its rural development activity is soliciting and utilizing input on goals and activities from a variety of players from other governmental units, including local, regional and tribal governments. Input from other states may also be useful. Another key issue, then, is the extent to which the state will coordinate its activities with other players. Representatives of local governments have played strong roles on the Washington State Rural Development Council (see box on page 20) but this isn't true of some of the other State Councils. The pros and cons of a high degree of coordination with these other governments are similar to those just discussed in terms of state-federal coordination.

A critical piece of rural development may involve getting input from a variety of other governmental players

In developing its relationships with other governments, the state needs to recognize that in many localities, those most in need of the benefits of rural development are frequently the most disenfranchised. Thus, the traditional community leadership (both elected and non-elected officials) may not adequately provide insights from or represent the interests of the whole community.

At What Sub-State Level Should Programs Be Implemented?

When preparing a state rural economic development strategy, someone must decide who implements the program. The state can choose the community (town or village) as the appropriate unit. For example, sewer grants might be made to individual localities. Another possibility is that the state can choose a cluster—a group of several nearby small communities voluntarily joined together—to implement programs and services. For example, a grant for primary health care clinics might be made to the cluster which would decide how best to allocate the grant monies to the communities in the cluster.⁶ Iowa, for example, intends to make increasing use of such local clusters to deliver a broad range of services. Finally, the county or the multi-county region could be chosen as the appropriate unit. The Michigan team, for instance, considered providing local planning assistance through an in-



Membership on the Washington State Rural Development Council

The eight pilot State Councils have had to grapple with a number of procedural issues during their early months. One of those issues is membership. Who is on the Council and who's not? Who should be permitted to join? Who should be actively pursued to serve as a member? There are no clear-cut answers to these questions, because the situation is different for each Council. One state's answers are, nevertheless, interesting. In Washington, anyone interested in the state's rural development issues who wants to join the Council is accepted as a member. On the other hand, the Council has made a concerted effort to reach out to groups—such as tribal governments and the private sector—that were under-represented at early Council meetings.

As of November 1991, the Washington State Rural Development Council had 217 members:

- **51 members from the federal government:**

This includes representation from the local, state or regional federal offices of Small Business Administration, Health and Human Services, Forest Service, Economic Development Administration, Defense, a wide range of other agencies, and one representative from the office of U.S. Senator Slade Gorton.

- **55 members from the state government:**

This includes representation from Trade and Economics, Wildlife, Library, Energy, Community Development, Transportation, Employment Security, and many other state agencies, as well as a representative from the Governor's Timber Team; several representatives from various public colleges and universities, and a staff member from the State Senate.

- **19 members from local governments:**

This includes representation from cities, counties, regional councils, and port districts (which handle a variety of local government functions, especially transportation and trade), and includes two county commissioners.

- **40 members from tribal governments:**

This includes representation from a large number of tribal councils and from a few tribal business committees.

13 members from the private sector:

This includes representation from associations of businesses and regional power companies, and a couple of individual small-business owners.

59 members from the non-profit sector:

This includes representation from a large number of local and regional Economic Development Councils and from a handful of other non-profit organizations, such as the Eastern Washington Office of Rural Health and the Washington State Council on Alcoholism.

place set of multi-county associations called the Community Growth Alliances.

The state does not have to choose the same group for every aspect of rural development. For example, sewer grants could be provided to communities, while decisions about solid waste disposal could be made at a regional level, and a physician loan program aimed at enticing more doctors into remote rural locations might be administered at the state level.⁷

Different aspects of a rural development effort can be implemented at different governmental levels

Allocating resources to individual communities will enable the state to consider the unique characteristics of specific rural localities. Under certain targeting schemes (see below) this will be critical. For example, if the state wants to focus job training funds on rural communities with high unemployment rates, then implementation at the community level is essential. The result of implementation at a regional level is that conflicts among individual localities will have to be handled within the region, perhaps leading to greater cooperation and a more efficient use of the state's limited resources. For example, if a five-county rural region can only support one full service hospital and two emergency care clinics, the state might allocate resources to the region to enable this health care to be provided, but force the communities within the region to jointly decide where the hospital and the clinics will be located. In many states the Job Training Partnership Act (JTPA) is administered at the regional level. Here, the state sends JTPA training funds to each multi-

county Service Delivery Area (SDA), but then the regional Private Industry Council (PIC) must decide how those funds will be allocated among programs and localities within the region.⁸

Idaho Uses the Region as the Focus for Program Implementation

Idaho has been divided into six regions and most major federal and state programs have agreed to use these districts for program implementation. These regional boundaries are used for local planning units, state transportation districts, vocational education districts, labor market areas, ITPA Service Delivery Areas, Small Business Development Center service boundaries, and as service areas for a variety of other state and federal programs. Common regional boundaries permit the collocation of the administrative offices of several programs and facilitates coordination across programs.

Chapter 4. Setting the Ground Rules for Implementation

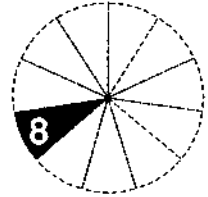
What Should Be the Extent of, and Basis for, Targeting?

Another key choice that a state must make is whether to target its resources, and, if so, how. Targeting involves allocating certain state resources to localities or sectors or individuals with characteristics that make them especially attractive or worthy recipients.⁹ The opposite or untargeted approach would be to allocate resources evenly throughout the state, or at least its rural portion, on the basis of some neutral factor such as population.

If targeting is chosen, there are several ways to allocate state resources. The state might choose to target geographic areas or industrial sectors with weak economic performance; in many states, such targeting would have a strong rural emphasis. For instance, a mining district with a notoriously cyclical economy or a five-county region of marginal agriculture and persistently high poverty rates might be appropriate targets. Michigan, for instance, targeted some development programs on places with distressed economies (i.e., towns and villages with especially high poverty, unemployment and outmigration rates) (Kayne, 1988, pp. 9–12), and targeted other programs on weak industrial sectors (the Michigan Modernization Service has focused on upgrading the quality and reliability of the auto parts industry).

Alternatively, the state might target areas or sectors with good economic opportunities such as those likely to produce the highest marginal return on investment. For example, Oregon, a strong timber state, has focused on the value-added opportunities of its secondary wood products industry. Other possibilities include targeting a region with both high unemployment rates and high skill levels or targeting selected “growth pole” communities (as the Appalachian Regional Commission has done historically).

While allocating resources to particular geographic areas and/or industrial sectors on the basis of economic



Targeting involves focusing resources on especially attractive or worthy localities, sectors or individuals

Targeting on the Metalworking Industry in Pennsylvania

Pennsylvania, after reviewing similar efforts in Germany, Japan and Denmark, recently instituted a Youth Apprenticeship program to help youths make the school-to-work transition. The program is intended to provide the state's high wage, advanced manufacturing employers a pool of well-trained, flexible entry-level workers. The program, which will focus first on the metalworking industry, incorporates a four-year curriculum that combines academic, technical and occupational education for young people. To be accepted into the program, a student must first finish the tenth grade, undergo an interview process, and satisfactorily complete a basic skills examination. Initially, instruction time will be evenly split between the workplace and school. In subsequent years, however, the workplace component will steadily increase. The program will be "marketed" to students as a "high status choice" and will offer a number of career options:

1. Finishing out the traditional adult apprenticeship program;
2. Pursuing an undergraduate degree in such areas as engineering or management; and
3. Going directly to work in a high wage, high-tech manufacturing position.

If the Youth Apprenticeship program is successful it will be expanded to cover other industries. Metalworking, traditionally a vital industry in Pennsylvania, was selected as the initial target because of an identified need for an upgraded entry-level workforce in the sector and several firms' expressed interest in cooperating in a pilot effort.

performance or opportunities is perhaps the most common approach to targeting, others are possible. Size and evidence of unusually strong participant commitment are other bases for targeting among communities or industrial sectors. For example, the Delaware Valley Industrial Resource Center is currently working with a group of small Pennsylvania aircraft parts manufacturers wishing to obtain total quality management certification demanded by their major customer.

Another basis for targeting could be a focus on particularly severe or clear market failures. For instance,

many states have established industrial extension programs to address the information shortages that many smaller firms encounter.

Still another basis for targeting could be to choose places with reputations for efficient service delivery. In order to get the most bang for the buck, the state might target its resources to communities with strong and well-administered local service delivery mechanisms. In Iowa, for example, the rural clusters are viewed as reliable vehicles for service delivery. Similarly, another basis for targeting would be to choose institutions with reputations for efficient service delivery. The Indiana Manufacturing Technology Services program, for example, provides assistance to manufacturers through ten regional locations. The regional provider varies across the ten regions but is chosen on the basis of its program administration track record.

Finally, a state might want to target one or more economic development programs to localities with a high degree of vulnerability, as indicated by overwhelming dependence on a single firm or industry. Oregon, for example, has historically used such a targeting mechanism for some programs (Kayne, 1988, p. 10).

Rather than target either place or sector, the state could target some programs to individuals with certain characteristics, regardless of where they live or work. While it is a longstanding practice to target assistance to the economically disadvantaged or unemployed, alternative selection criteria are possible and might sometimes better fit into an overall state development strategy. For example, within the context of a broad effort to upgrade technology and related skill levels, the University of Washington's Women in Engineering program seeks to increase female participation in both graduate and undergraduate engineering programs through increased recruitment and retention activities (Clarke, 1991).

An extreme approach to targeting is *triage* where all resources for a particular program would be allocated to a select set of communities or industrial sectors.¹⁰ For

Resources can be targeted on places and institutions with reputations for efficient service delivery

An extreme approach to targeting is triage

example, triage might involve dividing the state's rural communities into those that will do well without any assistance from the state, those that are unlikely to survive (i.e., those that will literally turn into ghost towns and those that will become decreasingly viable as economic entities over the years), and those that are on the borderline (i.e., those where some assistance from the state is likely to make a substantial difference in the survival rate). If a state were to use the triage approach, growth-oriented assistance (e.g., infrastructure development, business modernization assistance, new business development, industrial recruitment, and training for skill upgrading) might be targeted exclusively on communities like those in the borderline group. Those judged unlikely to survive might not only receive fewer resources, but these resources would be dedicated to worker and community adjustment (e.g., assistance to consolidate service delivery, job search assistance with appropriate training, relocation assistance, extended income support). No special assistance would be provided to those communities judged to possess a strong economy.

The triage approach has been used by a few states in their administration of the Community Development Block Grant (CBDG) program. Early experience with the program indicated that targeting funds to the most distressed places often resulted in high rates of project failure and poor performance. In response to these findings, states such as Wisconsin and Texas have in essence designed a triage response in which assistance is provided only to eligible communities (i.e., distressed places), but among the eligible localities, only those likely to succeed are funded (Kayne, 1988, pp. 11-12).

With careful targeting, the state's resources will go further

There is one important advantage to targeting resources. If the targeting criteria are thoughtfully selected and carefully implemented, the state's limited resources should go further in achieving the state's rural development goals. The disadvantage of targeting is that such thoughtful selection may be politically difficult to carry out; discrimination in favor of certain groups or regions can also be seen as discrimination against other groups or regions. In response to political pressure to include many groups and

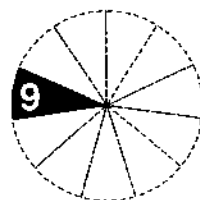
places in the targeted program, eligibility will often be expanded. Sometimes the targeting becomes so diffuse as to be no longer really useful. In Illinois, for instance, so many enterprise zones were designated by the state that program officials have considered establishing a two-tiered system with a higher level of incentives for Tier I zones (Kayne 1988, p.10). Often targeting may be difficult to implement because little or no clear-cut evidence supports the contention that targeting will better achieve the state's rural development goals than no targeting. Triage is simply an extreme case of targeting, and thus its pros and cons are similar, but more pronounced.

In short, some degree of targeting of the state's resources is a compromise between explicit triage and making no differentiation among the prospects of the state's communities or industries or individuals. Many states will find that such a compromise is appropriate. The danger of not targeting is that certain areas or industrial sectors of the state meriting special attention, usually because of poor economic performance or good economic opportunities, will not get that attention. Unless some degree of targeting is involved, it may be hard to justify the effort of designing a rural development strategy. Thus, the choice here seems not to be whether to target, but rather to what extent and on what basis targeting should occur.

Without some targeting, designing a rural development strategy may be hard to justify

How Should Services Be Delivered?

Stretching limited state dollars is always important, but it is particularly critical when diminishing federal resources are available for development activities, as has been the case for more than a decade. The question is how to best structure the delivery of services for rural development. A growing number of service delivery models are emanating from the states. Four basic models are presented here.



Most public programs rely on the first model, **direct service delivery**. Here, a single public agency is designated to deliver the service. Maybe it's job training by the state's employment and training agency or education of

Under direct service delivery, recipients understand that the state government should receive credit or blame

children by the local school district. Under this model, the public sector maintains direct control over the quantity and quality of services delivered. A second advantage is clear accountability. Recipients know that the state government should receive the "credit" for good service or "blame" for poor service. Frequently cited problems include bureaucratic inflexibility and inefficiency. Co-location was the North Dakota Policy Academy team's response to these problems. This co-location proposal called for the creation of one-stop local offices to house the area's small business development center, regional council, extension service, small business management program, and other related public services.

The competitive model is intended to increase efficiency and user satisfaction

Recently, some states have attempted in the second model to circumvent the first model by placing control of resources in the hands of those receiving the service while simultaneously introducing competition among service providers. For example, Michigan developed the concept of an educational "credit card" which can be used by the recipient for training which is funded by the state but provided at both public and private institutions. Several years ago, Minnesota began a choice program for its K-12 schools. Under this effort, educational funding travels with the student to the school he or she chooses. The major assumption underlying this *competitive* model is that efficiency and user satisfaction can be enhanced by making providers more responsive because they have to compete.¹¹ Further, if the service delivery mechanisms that are appropriate in rural areas are fairly different from those commonly used in urban areas (e.g., semi-scheduled taxi service may work better than scheduled bus service), the competitive model may be more likely to respond to such differences. Because these efforts are so recent, however, there is little empirical evidence to show that they do indeed improve program performance significantly without inadvertently producing additional problems. The competitive model may be particularly weak in rural areas, where demand is relatively small and few service providers are there to compete.

During the 1970s, a third model emerged. Under this model, public resources are stretched by requiring

private matching funds. For example, a local revolving loan fund might be established only if local private resources are obtained to match state dollars. Michigan instituted a sophisticated variant of this "matching" model with its Capital Access program, creating an incentive for commercial banks to undertake higher risk loans. Under this approach, not only was service delivery undertaken by private organizations (the banks) but private resource commitments were required before public support became available. Strong arguments favoring this approach are that private money is leveraged to help achieve public goals, there is a greater confidence that the public activity is responding to private market signals, and strong political support for the service is provided by the participating private sector actors. On the other hand, this approach (as with the first two models) is hampered by the constraint that overall activity levels are still limited (though not as much so) by the level of public resources available. Therefore, many eligible and interested clients (e.g., of job training) may not access the service.

When private funds are leveraged, there is greater confidence that the public sector is responding to private market signals

A fourth model **removes the state directly from service or resource provision**, after an initial effort to build self-sustaining private institutional capacity. Probably the most frequently cited example of this model at the state level is the creation of a flexible manufacturing network. Here, small and medium-sized firms within an industry are melded into a *network* with each other to permit and encourage activities which they could not undertake individually. Examples include joint product development and manufacturing, joint bids on large contracts which no one firm would be able to handle, equipment sharing, and joint marketing efforts. Such a network is likely to be especially advantageous to a rural firm, which may be physically remote from similar firms and its suppliers and customers. After such a network is established, the state will withdraw its involvement and the network will function independently.

Washington, Michigan, Ohio and Iowa have created networks in a number of industries and others are under development in Oregon and several southeastern states. Other examples of this *institution building* activity include

Flexible Manufacturing Networks in Ohio

The Appalachian Center for Economic Networks (ACENet) was founded in 1991 with support from the state of Ohio. Its goal is to create an institutional arrangement that will create relatively high-skill, high-wage jobs for an eleven-county rural area in southern Ohio by enabling local manufacturers to work together to produce marketable goods.

In 1991, ACENet established a group of flexible manufacturing networks to produce adjustable housing components that can accommodate the special needs of the disabled and elderly. For example, one component produced by one of the networks is a kitchen sink that can be easily adjusted to any height. ACENet staff identified a market niche that matched the manufacturing capabilities of a collection of small local firms. No single firm had the capability to identify the market, design the products, and manufacture the products. By working with ACENet, the networks have been able to successfully create, manufacture, and market these specialty housing components.

ACENet staff and network participants expect that network membership will evolve over time. In addition, the production of each specific product will call for the creation of a new network of firms. For example, one group of several firms might join together to produce an adjustable sink, but a second group might design and produce an adjustable desk. A very small number of firms might be in both groups, but some firms would be in one network and not the other. In addition, within any network, membership may shift somewhat from one production run to the next. Thus the word "flexible" is an extremely accurate description of the manufacturing networks that are being created in southern Ohio (ACENet, 1991, p. 2).

Washington's recent creation of a secondary financial market for small business equity issues, the establishment of the Southern Development Bancorporation in Arkansas, and Extension Service support for grower cooperatives, home-based business associations, farm management clubs and marketing associations. Conceptually, building effective, self-sustaining, private or quasi-private institutions to accomplish public goals (e.g., the creation of flexible manufacturing networks to enhance the competitiveness

A Business Loan Packager in Idaho

In 1991, Idaho began a program that will allow—and encourage—local Community Development Corporations (CDCs) with responsibility for administration of a variety of business loan funds to bring a *loan packager* on board. The loan packager will serve as a broker, matching the most appropriate available business loan funds with small businesses in need of capital. Possible sources include the Small Business Administration, Farmers Home Administration, state loan programs, local lenders, and funds available through a local CDC revolving loan pool. The loan packager should be able to lower the transaction costs for such lenders by screening applicants and presenting the loan applicant's background information in a standard format. The state of Idaho will be funding the loan packager program for five years. This program is expected to become self-sustaining after that, financed in full by the fees of applicants and lenders.

A Hybrid Model in North Carolina

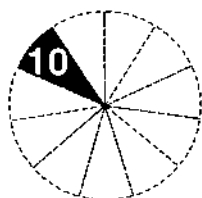
The Southern Technology Council is a joint venture of several Southern states. This multi-state public body is aimed at improving technology across a wide range of industries in the South. In 1990, the Council worked in collaboration with the 336-firm Catawba Valley Hosiery Association (CVHA) in North Carolina to develop a prototype computerized production monitoring system. CVHA members are nearly all small and medium-sized firms. This monitoring system can be easily customized to fit the requirements of each firm and should improve firm management capabilities and production efficiency. Nonetheless, without the Council's financial support and CVHA participation, system development is unlikely to have occurred because few Association members could easily have afforded its development. This effort contains aspects of the second, third and fourth service delivery models (Southern Technology Council, 1991, pp. 1-3).

of a state's industrial base) is an ideal solution to the service delivery dilemma. It is yet unclear, however, where this model applies and how its effectiveness might vary from problem to problem.

Many hybrid possibilities exist

These four models should not be viewed as mutually exclusive options. Many **hybrid possibilities** exist. For example, the state government or its contractors could provide training on a specialized production process to a group of firms belonging to a state-encouraged consortium of small biotech manufacturers. Or, the state could finance a market research voucher which could be used by members of a flexible manufacturing network to obtain expert but privately-held information on market conditions and trends.

How Much Control Should the State Assert?



To promote rural development, the state government is likely to have a variety of resources available. These resources will include financial resources to purchase goods and services (e.g., bridges and training programs) and expert assistance that can be provided to localities. The state can maintain tight or loose control over these resources. Under tight control, the state will make decisions on the detailed allocation of its resources (e.g., in terms of bridges, the state will decide how to allocate funds between new construction and rehabilitation of bridges, and the state will choose the location of those bridges to be constructed and rehabilitated). Under loose control, the state will send funds to localities as block grants, permitting the communities to spend the resources as they see fit to promote economic development (within the constraints of a few overall guidelines such as nondiscrimination and environmental protection).

Under the smorgasbord approach, the state will offer an array of programs, each useful to some but not all communities

A middle-of-the-road compromise is the *smorgasbord* approach. Here, the state will carefully design an array of programs, each of which will (presumably) be useful to some (though probably not all) communities, and each locality can choose from this menu those programs that it believes will be most useful for its economic development. Under the smorgasbord approach, the locality may be required to have some training that would assist it in becoming an *informed consumer*. In addition, the state would probably give each locality a cap on the total state resources available through these programs. A smorgasbord example is found in Canada. The Community

Futures Program enables rural regions to create economic development plans and then offers them a *menu* of five different programs, permitting communities to choose ones that will best contribute to plan implementation (National Governors' Association, 1988, p. 49).

Tight control assures that, for a state that "knows what's needed" to promote rural development, implementation is straightforward and not muddled by getting localities involved. For instance, the state may have a statewide perspective on what is most needed to upgrade the state's highway network in order to promote overall rural development in the state. The sum of local preferences for the use of highway monies will not necessarily produce a highway plan that works as well for the state as a whole. The benefit of loose control is that those closest to the scene of the action—the localities—can select activities they believe will most likely stimulate rural development, without interference from the state. These communities might also feel a greater sense of pride of ownership in the implemented projects.

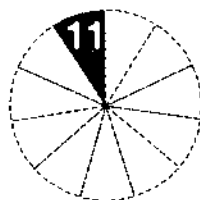
Tight control assures that implementation is straightforward

The smorgasbord approach is based on the assumption that neither the state nor the locality is the home of all wisdom regarding the appropriate use of rural development resources. This approach has the advantage of permitting both the state and localities to offer useful insights on the best way to carry out rural development in the state. One disadvantage is that the relative demand for the various programs which are made available to localities may be subject to substantial year-to-year shifts and thus be difficult to predict. Such uncertainties in demand will make program planning more difficult.

The smorgasbord approach permits both the state and localities to offer useful insights

Should the State Actively Develop Local Capacity?

The economic development literature in recent years has devoted considerable energy to delineating the problem of *local capacity building*. Capacity building is aimed at developing knowledgeable local leadership that can respond to, and even create, opportunities for economic development.¹²



Capacity building is aimed at developing knowledgeable local leadership that can respond to and create development opportunities

At one extreme, the state could take an active role in local capacity building. In this active role, the state would provide the resources to enable localities to build their intellectual and organizational capacity to carry out economic development, and the state would actively encourage communities to take advantage of state programs (such as training programs for local leaders on how to organize and carry out strategic planning for economic development). The Oregon Rural Development Partnership program, for instance, provides state assistance for local leadership training. Arguably the most expansive state effort of this nature is found in Wisconsin, where the state places community resource development specialists in local county extension offices to provide assistance and nurture local leadership.

The state's role, of course, could be more passive. It could design a program to build local capacity, but only communities taking the initiative to seek out the program would participate. Idaho, for example, requires a city council or county commission resolution as a prerequisite for participation in its community strategic planning program. This requirement places the state in the role of assisting those localities willing to take some responsibility for helping themselves. At the extreme, the state might choose to have no program of local capacity building.

Washington Takes an Active Approach to Local Capacity Building

Washington allocated over \$4 million during 1990-91 to promote the enhancement of local capacity. First, the state created a network of local development agencies called Associate Development Organizations (ADOs) to cover every county, both urban and rural. Now the state has developed a set of grant programs for the ADOs. These programs include the Local Development Matching Fund, the Rural Revitalization Pilot Project, the Rural-Urban Linkages Program, and the Timber Communities Assistance Program. As indicated by the program titles, some of these grants are focused heavily or exclusively on rural regions. To support the ADOs, the state provides the resources to enable them to engage in planning, feasibility studies, and project development.

An active approach to local capacity building can be meshed neatly with a targeting approach, if the state has chosen to target its resources. On the other hand, a passive approach can be seen as an implicit targeting approach—only those communities taking a certain amount of initiative will receive the state's capacity building program.

Chapter 5. Nine Principles for Organizing

There are no universally *correct* answers to the questions posed in the preceding sections. Thus, the issues discussed above represent real choices. In contrast, there are nine principles, summarized in Figure B, that apply to any choices that are made.

Figure B

Organizing for Rural Development: Nine Principles

- **Build Upon Previous Work**
 - Conduct a Detailed Analysis of the Economy
 - Build Upon the Existing Economic Base
 - Conduct an Institutional Scan
 - Create Partnerships
 - Be Politically Realistic and Astute
 - Establish Priorities
 - Limit the Immediate Objectives
 - Build in Evaluation and Use It

Build Upon Previous Work

All states in the United States have carried out some rural development activities. All states have done some thinking about rural development. For instance, state plans (which will usually have major economic development components) exist in many states. Often cities, counties, regional councils, universities or special state commissions will have produced studies on one or more aspects of the rural economy. Private consultants may have conducted independent analyses. In any state, several documents will be available which detail previous research and thinking on a variety of rural development issues. The Wyoming Policy Academy team, for instance, identified more than two dozen recent documents that

Several documents will lay out previous thinking on rural development issues

Rural Development-Related Documents Available to the Wyoming Team

In the spring of 1990, the Wyoming team for the Rural Policy Academy searched for documents that had been produced earlier that might be related to the development of a rural strategy for the Wyoming economy. The team was surprised to find more than two dozen documents of possible interest that had been produced in the preceding few years.

One set of several interrelated documents prepared in 1986-87 was entitled *Building a Stronger Wyoming*; this set of documents addressed a variety of issues such as education, the state budget, and residents' visions of the future.

The other documents uncovered by the Wyoming team were each focused on a single issue. These documents include the following:

- *State Comprehensive Outdoor Recreation Plan* (1985)
- *Summary of Mineral Company Interviews* (1990)
- *Master Plan 1989-94, Wyoming Community College System* (1989)
- *Governor's Task Force on Regulatory Reform: Small Business* (1989)
- *Strategic Plan for Wyoming's Agriculture Industry, 1990-2000* (1989)
- *Annual Report from the Wyoming Health Care Data Authority* (1990)
- *Survey of Senior Venture Capital Executives on the Feasibility of a Wyoming-based Development Capital Firm* (1989)
- *A Multi-disciplinary Evaluation of Where We Are Now in Tourism Development in Wyoming* (1989)
- *Telecommunications and Economic Development in Wyoming* (1987)

provided data and analysis describing critical aspects of the state's economy.

Not all of this previous work will provide useful information or insights. Much of the work may be irrelevant because it is out-of-date, based on weak or no data, based on faulty analysis or has other weaknesses. Never-

theless, a state which is about to launch a major effort on rural development should examine previous work and draw from that work whatever may be useful.

Conduct a Detailed Analysis of the Economy

It is tempting to respond to rural economic problems by immediately jumping into action. While this may be warranted sometimes—and, in the long run, may prove to be beneficial—actions that are grounded in good solid analysis of the state's economic situation will have a much better chance of achieving long-term benefits than actions that are merely quick reactions to crises.

It may not always be easy to know when enough analysis has been completed and that the time for action has arrived. At the very least the state should have a basic understanding of the central elements of its economy based on up-to-date analysis and not on outdated information and/or mythology. For each key sector in the state's economy (including those that are potentially important as well as those that are currently important), the state needs to understand how that sector is positioned in the domestic and world economy and how that position limits or offers expanded opportunities.

The state needs to understand each key economic sector's position in the world economy

Basic questions to be addressed include these: Who are the competitors? What are they doing? How are they different from (or the same as) the state's firms in this industrial sector in terms of productivity, technology, management, investment levels, wage levels, workforce quality and training, product development, public support, and so on? How are markets and technology changing within the state and the nation, as well as around the world? What are the bottlenecks that limit the development, production and marketing of new and existing products and services? What market failures are constraining development possibilities in the sector? (Eight of them are listed in *The Rationale for State Leadership in Rural Development* on pages 51–54) How are the answers to these questions different in rural areas of the state than in urban areas?

Arizona Focuses on Industrial Sectors

As part of its Strategic Planning for Economic Development (ASPED) project, Arizona has created nine *clusters* of similar firms. Each cluster is a "geographic concentration of interdependent, internationally competitive firms in related industries" and includes both exporting firms and supporting or "linkage" firms which provide components, support services and raw materials to the exporters. The clusters are:

1. Aerospace
2. Agriculture-food processing-forestry
3. Business services
4. Health-biomedical
5. Information
6. Minerals-mining
7. Optics
8. Tourism
9. Transportation-distribution

Representatives from each of these clusters were convened several times throughout 1991 to contribute to the state's strategic planning process. They will be employed again as the state attempts to identify opportunities and problems associated with the North American Free Trade Agreement (NAFTA). The state uses this process to tap into key private sector players' knowledge about current issues in each of these nine critical sectors (Waits, 1992, p. 2).

Build Upon the Existing Economic Base

Often a state will do well to do what it has been doing in recent years, but to do it differently

When analyzing economic structure and prospects, it is easy to focus heavily on new kinds of activities like biotechnology, boutique raspberries, and robotics. The underlying philosophy is straightforward: "The rural economy is currently not doing too well, so in order to get it to perform better, we must do something new." The logic is appealing. Often a state will do well, however, to do what it has been doing in recent years, but to do it differently. A state's efforts to enhance its rural economy should not ignore the basic foundations—and the comparative advan-

tages—upon which that economy currently rests. Many states are beginning to look at value-added opportunities. If the state is currently exporting raw materials (e.g., wheat), it may be able to develop facilities for processing some of those materials (e.g., pasta manufacturing) prior to shipping. Oregon, for example, has recently instituted a program to promote expansion of furniture manufacturing to better utilize the state's timber resources. The Iowa Academy team proposed a focus on its food processing industry to add more value to the state's agricultural exports. Similarly, the North Dakota team proposed giving more attention to its energy by-product industry as a value-added adjunct to its oil production.

This doesn't mean that a state shouldn't consider doing some things, even lots of things, that are new. It's just that the first question to ask is: "To what extent does the existing industrial base offer an opportunity to significantly upgrade rural skills and wages?" Once a state is satisfied with that answer, it then can go on to consider what new activities might realistically be expected to assist in the upgrading.

Conduct an Institutional Scan

An array of institutions—in both the public and private sectors—might contribute to the development and implementation of a rural development strategy. A state will want a least a list of these institutions in order to be sure that the critical ones are involved in the strategy development process. The North Dakota Academy team, for example, identified more than one hundred public agencies and private organizations involved in economic development within the state.

A state will want to be sure that critical institutions are involved in strategy development

Pertinent questions about the candidate institutions include: Which ones are currently active in rural development in the state? Which are effective? Which have potentially useful resources (including funds and skills)? Which ones are powerful? Whose support or opposition might make or break a rural development scheme?

An Institutional Scan for North Dakota

In 1990, as part of the Rural Academy process, the team from North Dakota developed a checklist of some of the key organizations that might be important in the rural development equation. Here are excerpts from that list, which covered more than one hundred public and private sector institutions.

- Wholesalers and Manufacturers Association
- Farmers Union
- Farm Bureau
- Investor-owned utilities
- Rural electric cooperatives
- Indian tribes
- Counties
- Cities
- Regional councils
- Local development organizations
- Regional job development authorities
- Upper Great Plains Transportation Institute
- Bank of North Dakota
- Greater North Dakota Association
- Governor's Economic Development Roundtable
- Resource Conservation and Development districts
- Farmers Home Administration
- Economic Development Administration
- Small Business Administration
- Parks and Recreation Department
- Economic Development Commission
- Office of Intergovernmental Assistance
- University of North Dakota
 - Center for Innovation and Business Development
 - Energy and Environmental Research Center
- North Dakota State University
 - Cooperative Extension Service
 - Center for Economic Development
 - Center for Rural Revitalization
 - Institute for Business and Industrial Development

Which ones are entrepreneurial, flexible, and in touch with their clientele?

The state will want to identify potential friends and adversaries (at least the powerful ones). Some institutions will be particularly helpful in designing the state rural development strategy, while others may have some key assets important in the implementation of the strategy (e.g., the ability to deliver technical assistance to localities or to businesses).

Create Partnerships

To carry out the type of analysis and strategy development suggested above, it is crucial to create partnerships with knowledgeable private sector actors.¹³ In many states, the individuals and organizations with the most detailed understanding of what is going on in a given industry will be those in the industry itself.

Private sector involvement will also help prevent the state from proposing specific policies and programs that are not well-targeted or are counterproductive. For example, if training is to be part of a rural development strategy, then input from employers, employees (i.e., potential trainees) and trainers should be obtained. If improved health care is to be part of the state's strategy, input from health care providers (hospital administrators, physicians, other medical personnel) and recipients (users of rural hospitals and clinics) should be obtained.

Private sector involvement will help prevent the state from proposing policies which are not well-targeted

Unfortunately, almost all of the Policy Academy teams had little in the way of extensive, high-level private sector involvement. And, at least through late 1991, all eight of the pilot State Rural Development Councils were also weak in private sector representation.

Some private sector organizations will be easier to get to the table than others. For instance, a utility has a clear and direct interest in strengthening economic activity within its service area. Others, such as agricultural groups like the state Grange, may not so clearly see their poten-

tial role and interest in overall rural development. Convincing them to participate may, therefore, be more difficult. Nevertheless, an extra effort to get key private sector interests to join the state in working on rural development may pay good dividends.

A rural development strategy that is developed by the state in isolation—without knowledgeable input from the private sector—is less likely to gain a broad base of political support. Thus, creating partnerships will produce strategies that are both stronger and more strongly supported. The North Dakota team, for instance, mounted an extensive and productive effort to get very broad and detailed input from manufacturers within the state. Almost every manufacturer in the state was contacted by a team member or other top-ranking state official (the governor himself even made a handful of these visits and calls) to learn about the problems and opportunities faced by the state's firms. In addition to the obvious political goodwill that such an effort can produce, the information obtained from these contacts was extremely useful to the team in designing its rural development strategy.

For various reasons, not every potential partner should be brought into the process of developing the state's rural development strategy and not every eventual partner should be brought in early, but it seems clear that the state will be more successful in implementing its strategy if it doesn't try "to go it alone."¹⁴

Be Politically Realistic and Astute

The success of a rural development strategy will depend as much upon its political support as its operational design. Well-meaning and committed, but politically naive, rural development advocates are unlikely to be able to implement much. In most states, politically skilled "insiders" will be an essential part of any team that successfully moves to address rural development. Having the governor (or top staff) and/or the legislative leadership as key players in the process of putting together the state's

Creating partnerships will produce strategies that are both stronger and more strongly supported

Politically skilled "insiders" will be an essential part of any successful rural development team

rural development strategy will ensure that political realism prevails. Agency participation must not be just *token* representation; rather, it is important that key agency heads be fully committed. The success of North Dakota's plan that emerged from the Rural Policy Academy hinged largely on having active participation by the governor's chief of staff and House and Senate leadership. This top-level commitment encouraged other key players (e.g., the Bank of North Dakota, the state universities) to become full participants. Leadership from the governor's office and key legislators can be critical in achieving consensus, across a range of agencies, on goals and actions.

In many states, no single political party controls the governor's office and both houses of the legislature. Therefore, any success in implementing a rural development strategy will usually require strong support of both political parties. Support for Iowa's strategy, for instance, was strengthened considerably by bringing some key Democratic and Republican legislators into the Rural Policy Academy process to join some of the top staff of a Republican governor. Similarly, regardless of the party affiliations of the players, the structure of many state governments creates relatively weak governors who do not directly control all agencies (e.g., Texas has an elected Agriculture Commissioner who can not be removed by the governor). Therefore, inclusion of key independent agencies in the strategy development process may be crucial to the ultimate success of strategy implementation.

In many states, strong support of both political parties is required

Often, political realism and focusing on limited objectives (which is discussed later) will go hand-in-hand. Sometimes—but not always—a “politically realistic” strategy will be one that is necessarily incremental in scope. Political astuteness is also important—this involves identifying unique windows of opportunity, and then taking advantage of such opportunities. These windows could include an economic crisis, a natural disaster, a one-time budget surplus, or an impending reapportionment of political districts. Current defense cutbacks, for example, are providing the impetus for economic development initiatives in rural Maine.

Political astuteness involves taking advantage of unique windows of opportunity

New Rural Development Legislation in North Dakota

In 1990, the North Dakota team at the Policy Academy began a process that resulted in major new rural development legislation only a few months later. The North Dakota team included the governor's chief of staff and two key legislative leaders, as well as top agency officials. The team was politically astute enough to co-opt proposals from a recent private sector-sponsored "Vision 2000" report, and to build these into its legislative package. The team's proposals were enacted into law with support from the governor and top agency heads, legislative leadership from both parties and key private sector players. This ambitious legislation included the following components:

1. Maximize the use of profits from the Bank of North Dakota (the only state-owned bank in the U.S.) for rural development objectives;
2. Enhance the capabilities of the North Dakota Economic Development Commission through reorganization and refocusing;
3. Create a primary sector development fund that would be used to expand the economy in value-added agriculture, manufacturing, energy by-product development, and export services;
4. Develop a Science and Technology Corporation to link the resources of higher education to the state economic development delivery system;
5. Revitalize agriculture through diversification;
6. Reorganize the delivery of business assistance at the regional level;
7. Develop and train community leaders;
8. Recruit targeted industries and entrepreneurs;
9. Enhance business opportunities for minorities and women; and
10. Develop entrepreneurship awareness programs for bankers.

Although this legislation is the centerpiece of the North Dakota rural development initiative (and should be seen as a major accomplishment), it is important to note that new legislation by itself will not be sufficient to address the rural economic problems of North Dakota or any other state. On the other hand, much can be done even without legislation. For instance, often agencies can better cooperate with each other and the private sector without new legislation. Nevertheless, many states will want to develop a strong legislative package to promote rural development.

As indicated earlier in the discussion of the institutional scan, those involved in putting together the state's rural development activities should identify the key players and the important formal and informal interest groups that might be crucial in supporting or vetoing one or more pieces of the state's rural development strategy. But, such identification is not sufficient. In addition, the state should explicitly think through the political strategies and public education campaigns that might be necessary to gain the support of the key players and groups for the state's rural development proposals. The critical element here is getting the political experts fully involved when developing plans for implementation.

Establish Priorities

Once several interested and committed players have come together to work on the state's rural development issues, there will be a movement to consolidate the identified ideas and proposals into an all-inclusive *laundry list*. Establishment of such a list will often be an important intermediate step in the process of developing a state strategy, but it should not be viewed as the final step. If the state is to play an important role in shaping the rural economy, priorities must be established among the various actions that the state might undertake to stimulate its rural economy. Only in this way will limited resources be focused upon the actions that are seen as absolutely critical.¹⁵

Several of the federal initiative's State Councils were unable to move beyond the laundry list during their first several months. Thus, by September 1991, some months after initial Council start-up, one Council listed seven *priority* issues: employment, water resources, capital, health care, local fiscal base, local leadership and coordination among service providers. A second Council listed six priority issues: coordination, physical infrastructure, human infrastructure, leadership, natural resources and business development. Each Council has a limited array of resources that can be brought to bear on identified

A long "laundry list" of broadly stated issues will be less useful than a shorter, more sharply focused list

problems. In deciding how to allocate these scarce resources, such a long list of broadly stated issues will be much less useful than a shorter, more sharply focused set of problems to be addressed.

Limit the Immediate Objectives

Few long-term victories can be won without short-term victories along the way to build and sustain momentum

Another temptation will be to focus attention and energy on the achievement of broad long-term goals. Given the political and economic realities faced in most states, this would be a soul-satisfying but impractical way to do business. Few long-term victories can be won without a number of short-term victories along the way to build and sustain momentum and support for rural development. Thus, the best approach would seem to be to keep the long-term vision in mind, but to focus immediate attention upon limited and achievable short-term objectives which fit logically within—and fully support—the long-term strategy.

Limiting the immediate objectives has the virtue of leading to small accomplishments that will give those devoted to the cause of rural development a sense of pride in tangible results. By limiting the scope of the objectives, some visible results can be achieved quickly before discouragement sets in.

Build in Evaluation and Use It

Rural development is not a one-shot deal. Over time there will be ebbs and flows both in the attention paid to rural development and the supporting resources. No matter how successful this year's strategy may be, there will be a need for more work in future years. In addition, because regional economic structures are in constant flux, strategies that are successful today may no longer be appropriate in the future. Therefore, the state should build an evaluation component into its rural development strategy. The evaluation should not just be window dressing. It should be used to determine whether various

pieces of the state's rural development approach make sense as implemented or might be modified to become more effective.

There also is a potentially large political benefit from rigorous evaluation. In seeking initial approval of a rural development strategy, an evaluation component may help convince undecided decisionmakers that program managers will have incentives to use resources prudently. Positive results from rigorous evaluation can also help cement support for continued funding. At the federal level, for example, support for the Head Start program has benefitted immensely from evaluations that firmly establish program efficacy for certain groups of preschoolers.

Evaluation should be used to think about modifications that would make the state's development approach more effective

Chapter 6. A Final Word

Over the past decade, leadership for rural development in America has gravitated to state government. As the overall state of the rural economy in the United States has deteriorated since the late 1970s, the need for solid workable rural development strategies has increased. Thus, the importance of the states' activities to stimulate rural economic development is greater than it has been at any time in recent history, and the challenges are perhaps more daunting than before. Despite the enormity of the task, states can make a real difference in this critical policy area.

States can make a real difference

The individuals and organizations participating in a structured process of organizing for rural development should find this to be an exhilarating experience. For most participants, this can be liberating and exciting, a welcome opportunity to step outside the narrow confines of traditional ways of thinking and conducting business. This is a chance for participants to find new roles and a new purpose.

A state cannot realistically expect quick or easy results when it embarks on a major effort in rural development. There are many possibilities for wrong turns and minor accidents, plenty of potholes and the occasional detour. Even the most experienced, dedicated and careful state team will run into difficulties along the way. Patience and persistence are mandatory.

Patience and persistence are mandatory

The Rationale for State Leadership in Rural Development

For more than a decade, the federal government has not played a leading, activist role in promoting economic development. In response, many states have broadened their own development efforts. This passing of leadership from the federal to the state level has been a major impetus for greater state activity in rural development in recent years. Nevertheless, given the combination of shrinking resources and growing demands on state government, a convincing argument must be made for state involvement in rural economic development.

This argument will have three interconnected components:

1. Reasons for public sector involvement in the state's economy in general,
2. Reasons that the state government (as opposed to other levels of government) should be involved in shaping the state's economy, and
3. Reasons for devoting special attention to the rural portion of the economy.

A substantial and well-known body of literature exists to provide a rationale for public sector intervention in the economy at large. We will not reiterate that justification here. That the state government should wish to play a prominent role in shaping the state's economy seems obvious; that it must play such a role given the decreased attention of the federal government also seems clear. Thus, we will focus on the third component.

Perhaps the strongest argument for focusing on a state's rural economy is to **improve rural-urban equity**. As noted earlier, numerous disparities—on a variety of economic and social indicators—between rural and urban areas exist, and have been increasing over the past decade. In many states, the emergence of a dual economy, with severely lagging rural regions (see Redman and Rowley, 1991), can be a strong justification for state involvement. There's a need to more evenly distribute economic opportunities and outcomes across the state. While investment in improved education and health care for rural areas perhaps can be justified on efficiency grounds (as in "society benefits from having a well-educated, healthy—and thus more productive—population"), justification on equity grounds is also reasonable (as in "it is unfair to penalize individuals who live in rural areas by providing them second class education and health services"). For other state actions, like the provision of strong libraries in rural areas, the efficiency argument may be weak or nonexistent. In these cases, the equity argument is the only appropriate one that can be made. As Gardner (1989) describes the situation, justification for a focus on rural regions within a state often "must come from the heart as much as the head."

Maintenance of existing rural facilities may be important but difficult. Thus, a second justification holds that it is more efficient to make full use of fixed investments (schools, roads, municipal water and sewer systems, commercial buildings, other public and private facilities) al-

ready in place in rural areas rather than to abandon them. An effort that is made to help rural communities will thus result in a fuller use of these investments. Another part of this argument holds that urbanites traveling through or visiting rural areas will find it efficient to have key services such as food, lodging, auto repairs, and law enforcement on hand.

Preservation of a rural "way of life" is a third justification. The premise here is that there is a different lifestyle that is found in many rural communities. The attributes of this lifestyle include neighborliness, a slower pace, a focus on "family" and "traditional values," an appreciation of the land and "nature," and a strong work ethic. To some extent, these characterizations are based on fact and to some extent on mythology. Regardless of their accuracy, this is a picture that many people—both urban and rural—accept as true. Building upon this premise of a special and, in many respects, admirable rural way of life, and upon the above-cited indicators of relatively severe rural economic problems, the argument is made that state attention on rural areas is needed to help preserve this "endangered" lifestyle.

A fourth justification is that in some basic characteristics, rural areas are simply different from urban areas. For instance, beyond equity considerations, the low population density of rural areas will often require different service delivery mechanisms (say for health care, public transportation, or job training) than is appropriate in urban areas.

Depending upon the structure of a particular state's economy, a fifth argument that might be made for focusing attention on rural areas within a state is to **improve the efficiency of the state's economy**. Here, public sector intervention would be justified as a means for overcoming or ameliorating one or more market failures. At least eight types of market failures are of interest here:

1. Unemployment;
2. Underemployment;
3. Underinvestment in research;
4. Key capital shortages;
5. Key information shortages;
6. Undervaluing of agglomeration economies;
7. Undervaluing of positive externalities (such as the downstream benefits of soil conservation or wastewater processing investments); and

8. Underinvestment in merit goods (such as literacy programs, training, and health care) that provide positive social benefits.

The existence of any one of these eight market failures or any combination of them will decrease the efficiency of the overall economy. Some observers of the rural economy (see Deavers, 1990) have argued that, beyond information shortages, there is no strong evidence of substantial across-the-board market failures in rural America. Nonetheless, in certain rural places significant market failure may be found. In some states, market failure in rural areas may be so much more severe than in metro areas that special attention paid to correcting these failures in rural regions may improve the efficiency of the state's overall economy. The relative efficiency gains from devoting a state's resources to rural, rather than urban, development activities will vary from state to state.

A sixth justification for a rural focus is the existence of rural-urban linkages. The state's urban areas may be affected by rural problems either through market linkages or through migration.

Problems of market failure in the rural economy—should they exist—can exert an indirect drag on the metro economy. For instance, poor quality control or slow production by rural suppliers (perhaps due to lack of knowledge of readily available production technology or up-to-date management practices) can cause significant problems for metro assembly operations. Thus, a focus on correcting market failures in the rural economy may simultaneously improve the efficiency of the state's urban economy.

The migration linkage is also important. Rural problems of low skill levels and high unemployment, for example, may become urban problems through migration from the state's rural regions to its urban areas. In addition, rural-urban migration will increase congestion, and its associated costs, in the state's urban regions.

The rationale presented here is a generic one. In a specific state, in a particular policy context, a rural advocate will want to draw upon the arguments that are likely to be most persuasive at that time and place. For instance, when the state budget is severely crunched by recessionary pressures, the equity rationale may prove to be less effective than it would in an era of a booming state economy.

Endnotes

1. An abbreviated version of this paper will appear as a chapter in a book entitled *Economic Development Strategies for State and Local Governments*, McGowan and Ottensmeyer, editors. Publication date is 1992.
2. Beryl Radin, who is at the Washington Public Affairs Center at the University of Southern California, made this observation in a phone conversation on December 24, 1991. Radin headed a team of eight researchers who took a detailed look at the operations of the eight pilot State Councils through mid-1991.
3. The authors have heard Ross enunciate this point on several occasions, including at the Rural Policy Academy session held in Minneapolis in May 1990.
4. Much of the groundwork carried out by Pennsylvania's Academy team—such as delineation of key rural issues and the development of possible responses—has been useful for the Center for Rural Pennsylvania and other interest groups. Thus, even though the direct link to the governor was not fruitful immediately, it is plausible that the team's work may ultimately—while slowly and indirectly—reach the governor.
5. Many state governments are on different election cycles than the federal government (e.g., the governor is not elected in the same year as the president). A federal-state partnership in support of a rural development effort in such states will help assure that at least one strong advocate of the effort remains after each election; thus, it is likely that political support for a rural development strategy will continue after an election (such an outcome is less likely, of course, when the strategy's patron is not reelected). A similar challenge occurs when an economic downturn slashes funding available for economic development programs; in Maine, for example, in 1991, the presence of the federal government as a key partner in the State Rural Development Council helped to maintain the

visibility of rural development issues despite dramatic decreases in state revenues.

6. For services or programs where distance is important (e.g., public library users may be willing to travel ten miles, but probably not 50), clustering of communities may make less sense in the more sparsely settled states of the western half of the United States than it does further east where most communities are relatively close to neighboring places. For services or programs where distance is not important (e.g., dispatching police or fire or emergency medical services), then the value of clustering does not depend on population density.

7. The appropriate level for thinking about a rural issue (i.e., analysis) is not necessarily the appropriate level for implementation. For instance, analysis of health care needs might be carried out on a community-by-community basis, while a grant program to upgrade health care facilities might be implemented through multi-county regional health districts.

In terms of analysis, a community-level focus will enable the state to distinguish more clearly among unique communities. Not every community in a particular region will look like the others in terms of characteristics that are central for rural development (e.g., skill levels, quality of infrastructure, industrial structure). On the other hand, conducting most analysis along regional lines, rather than broken down by individual communities, will have the advantage of requiring less disaggregated—and less expensive—data.

8. In January 1992, President Bush proposed that \$18 billion of federal training funds be consolidated under control of the Private Industry Councils; such a change would make these Councils by far the most important substate recipient of federal funds in rural areas.

9. When we speak of targeting, we are not implying that the state would necessarily focus all of its resources from a particular program on only one or a few geographic areas or industrial sectors or categories of individuals.

Targeting could also involve focusing resources disproportionately on a few areas or sectors or categories of individuals, but not to the total exclusion of other areas or sectors or individuals.

10. Triage could be used for sorting individuals, as well as for sorting communities or industrial sectors.

11. We must acknowledge that a number of thoughtful observers of the "choice" approach have severe reservations about some of the likely distributional consequences.

12. See Shaffer (1990) and John (1988) for evidence indicating that local leadership may sometimes be an important factor in stimulating rural economic development.

13. We explicitly discuss partnerships with the private sector (including nonprofit organizations) here. We think that state government partnerships with federal, local, regional, and tribal governments are also often crucial; however, we discussed those relationships earlier.

14. There is the danger, of course, that private interests may conflict directly with the public interest. A private firm may be interested in promoting a rural development strategy that does not encourage competition and that does not tend to raise local wage rates. When bringing the private sector to the table, the state must be aware that some of the input may be colored by such self-interest.

15. The state should not merely accept communities' expressions of their wants as the mechanism for setting priorities; rather, thoughtful analysis and careful targeting of the sort described above is usually the preferred route for establishing priorities. Under Oregon's Regional Strategies program, for example, each region is expected to develop a well-documented plan for a targeted industrial sector; a "wish list" of unrelated projects is not acceptable.

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