

A Policy Focus for Rural America—A Conference Summary

By Mark Drabentstott and Katharine H. Sheaff

Rural policy should encourage more regional partnering among rural firms, communities, and governments. That was the conclusion reached by a dozen policy experts and 200 rural leaders from throughout the nation who gathered at the Center's third annual rural policy conference, *The New Power of Regions: A Policy Focus for Rural America*. The conference was also sponsored by the bank's Community Affairs Department.

The conference began by exploring why regional synergies are important in seizing a new frontier of rural opportunities. Participants were quite upbeat about that frontier, with considerable discussion of pharmaceuticals grown in fields, advanced manufacturing, and e-commerce.

But participants were even more convinced that such opportunities will develop only with new models of partnering—across firms and across governments. Case studies of pharmaceutical farming in Iowa and new business initiatives in the Four Corners region underscored the point. In the final session, policy experts and conference participants agreed that building new regional partnerships needs new policy directions. This will require new efforts by leading federal agencies like the U.S. Department of Agriculture, by state and local governments, and by public institutions, such as land grant universities and community colleges.

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I. UNDERSTANDING THE POWER OF REGIONS

The first session of the conference examined why regional synergies play such a big role in shaping the outlook for the rural economy. John Quigley concluded that “agglomeration” economies are part of the essential tug and pull of the rural economy. Rural America enjoys some competitive advantages inherent in its large land mass and lack of urban congestion. Low land costs, for example, have been a huge rural asset as manufacturing companies have adopted continuous assembly production practices and then gone searching for low-cost land to locate sprawling plants. But the other force at work is rural America’s low density, a liability in the new economy where firms often look for large pools of skilled labor or similar firms with whom to share technology or best business practices.

Quigley noted that low-cost land has been especially telling for the rural economy over the past couple of decades. Over that time, manufacturing’s share of rural incomes has swollen to 28 percent, more than 10 percentage points higher than in urban areas. Thus, manufacturing is much more important to the economic well-being of rural areas than of urban areas, a gap that has steadily widened.

On the other side of the coin, rural areas have trailed in attracting service firms. Here, rural America’s low population density hurts growth, making it difficult for firms to find the necessary threshold of customers. In addition, rural areas have more limited labor pools, and labor is relatively more important in services than either manufacturing or agriculture.

Agglomeration economies also appear to be quite important in spurring both entrepreneurial activity and knowledge-based industries. Quigley noted that such synergies had been observed for more than 75 years, and “knowledge spillovers” are one key to explaining many economic trends of the 1990s, including the emergence of regions like Silicon Valley.

Looking ahead, Quigley pointed to two ways rural America could build more agglomeration. One is technology. Telecommunication technology mitigates much of the economic liability of low density and dis-

tance from markets. Many of the synergistic effects of density and “face-to-face” contact can be replicated through virtual networking, teleconferencing, and other electronic means.

The other way is public policy. Quigley argued that there are sound foundations for both “place-based” and “people-based” policies to help rural America seize new opportunities. Place-based policies (which focus mainly on infrastructure) might be very helpful in overcoming rural America’s low density. Such policies might be justified on two grounds: preserving the scenic beauty of the countryside and recognizing that urban development is irreversible. People-based policies would continue a long tradition of investing in the human capital of rural residents, a tradition begun when Abraham Lincoln signed the Morrill Act creating land grant universities. Such policies are likely to return sizable public dividends, but the gains may end up in metropolitan areas. Since both types of policies seem likely in the future, Quigley concluded that the rural economy is likely to remain quite mixed for the foreseeable future.

Andrew Isserman made the case that how we define rural regions will be crucial to the future of rural America. Historically, the nation has often viewed rural America as a “residual.” In population statistics, for instance, the rural population is what is left over once the cities are counted. With the sprawl of cities over time, the rural population is constantly shrinking.

How we define regions is also central to how rural America views itself. Isserman suggested that continuing to accept the “residual” definition has two negative implications. First, rural America is always lagging behind. By definition, the fastest growing parts of rural America become part of the nation’s cities—a situation like a minor league team always losing its best players to the major leagues. And second, rural America tends to look backward instead of forward—at what it has lost instead of what it might gain.

Isserman explored several intriguing ways of thinking regionally in rural America. He began this discussion by noting there is some history to the idea of rural regions. At the federal level, there have been three regions designated by Congress for the purposes of boosting the respective region’s economy. The Appalachian Regional Commission, the “granddaddy of regional commissions,” was created in 1965 and contin-

THE NEW POWER OF REGIONS:
A POLICY FOCUS *for* RURAL AMERICA

*Third Annual Rural Policy Conference
Federal Reserve Bank of Kansas City
May 9–10, 2002*

Understanding the Power of Regions

John M. Quigley—*I. Donald Turner Distinguished Professor
University of California, Berkeley*

Andrew Isserman—*Professor, University of Illinois*

Exploring Case Studies of Rural Regions

Ronald Mortensen—*Managing Director, Iowa Cooperative, Fort Dodge, Iowa*

John Greaves—*President, Kem in Industries, Des Moines, Iowa*

Stephen Howell—*Director, Plant Sciences Institute, Iowa State University*

David Eppich—*Executive Director, San Juan Forum, Durango, Colorado*

Greg Anesi—*CEO, Independent Mobility Systems, Farmington, New Mexico*

Thomas C. Taylor—*New Mexico State Representative, Farmington, New Mexico*

Putting Regions into Rural Policy

Jim Moseley—*Deputy Secretary of Agriculture*

Conference Overview Panel

Brady J. Deaton—*Provost and Executive Vice Chancellor for Academic Affairs,
University of Missouri–Columbia*

Jane Patterson—*Executive Director, North Carolina Rural Internet Access Authority*

Curtis Johnson—*Senior Writer and Principal, The Citistates Group,
St. Paul, Minnesota*

ues today. The Upper Great Lakes Commission was organized in 1967 but then repealed in 1981. More recently, Congress authorized the Delta Authority in 2000.

Such “macro” regions are only one way of thinking about the future, however. Isserman pointed to several other possible frameworks for thinking regionally. In all cases, the definitions start with the goal in mind. *Self-defined regions* might spring up around a new business opportunity—the Iowa pharmaceutical crops region provided a good case in point later in the day. *Economic regions* might define themselves on the basis of their common economy—the Four Corners region is a good case in point. *Natural resource regions* might be forged due to sharing an important natural resource. Attending the conference, for example, were representatives of a Great Plains region that formed around efforts to preserve habitat for the prairie chicken, a potentially endangered species. River basins have also provided a regional cohesion that often extends beyond the natural resource itself.

While not fitting precisely under any of these types of regions, Isserman also described what could be a very strong region in the Heartland—the *farm payments region*. Beginning in the central Corn Belt, extending west to the Rockies, and running from Texas to the Northern Plains, this region receives at least a third of its farm income from government payments. While the new farm bill will extend those payments another six years, Isserman concluded that this region has a strong common interest in developing new economic engines that can be sustained without federal assistance.

The new farm bill received considerable discussion throughout the conference. Some participants suggested that it was an essential safety net for farm producers, while others claimed that it discourages innovation and new entrepreneurial thrusts. Most agreed that an alternative vision for the future of both agriculture *and* rural America is badly needed. In response to a question from a conference participant, Isserman concluded that while there are reasons why this farm bill was passed, now is the time to start thinking about what comes next.

THE NEW POWER OF REGIONS: A POLICY FOCUS *for* RURAL AMERICA

Regions are a critical way for rural America to seize new economic opportunities. Evidence is mounting that investments in regional competitiveness can open the door to powerful economic synergies for rural businesses and communities alike. Yet, U.S. rural policies still focus on individual firms and towns.

To shed light on why regional synergies are so important to the rural economy of the 21st century—and how public policy can encourage these synergies, the Center for the Study of Rural America hosted a conference, “The New Power of Regions: A Policy Focus for Rural America,” May 9–10 in Kansas City, Missouri.



A distinguished group of rural experts from the United States and beyond were on hand to share their ideas. Our audience included national leaders from government, business, finance, and academe.

The conference proceedings will be available this fall. To receive a free copy, please visit our website at www.kc.frb.org or write us at:

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II. EXPLORING CASE STUDIES OF RURAL REGIONS

The conference took a close look at two rural regions. The first case examined a fledgling region trying to develop pharmaceutical crops in Iowa—a regional strategy driven by an emerging business opportunity that requires a critical mass of farmers, communities, businesses, and support institutions. The second case examined a well established region—the Four Corners region of Arizona, Colorado, New Mexico, and Utah—which has a long history of partnering in business and government. While different on many dimensions, both regions view regional cooperation as essential to tapping the best rural economic opportunities of the 21st century.

Biopharming in Iowa

The first case study examined one of the most exciting prospects on the rural economic frontier—growing pharmaceuticals in fields. Ronald Mortensen started the case study with a discussion of the Iowa Cooperative, a new farm cooperative formed to bring pharmaceutical crops to north central Iowa. This is a prime growing region, with tremendous soils, excellent rainfall, highly skilled farmers, and efficient grain-handling infrastructure. Despite all these advantages, the region is currently struggling from dwindling population, increasing international competition, and a lack of rural entrepreneurs.

The Iowa Cooperative is working to develop a cluster of 300 to 500 producers that could provide a critical mass of production for the pharmaceutical industry. This would allow the producers to become part of a value chain and also provide new high skills jobs in the region. The high value crops, in short, might stem the exodus of young people from the region.

John Greaves pointed to several specific pharmaceutical products to emphasize that the “future is now” for Iowa. For example, he pointed out the benefits of lutein (harvested from marigolds), which prevents eye disease, and Fortium R (harvested from rosemary), an antioxidant that maintains the freshness of foods. These crops are not currently grown in Iowa, but they are examples of what could happen in Iowa fields. While the opportunities are enormous, Greaves delineated several challenges to widespread development. Farmers must be willing to

switch from commodity production to much more carefully calibrated crops that require special production and handling practices. New research is needed on pharmaceutical crops well-suited to Iowa. And pharmaceutical production will require an entirely new approach to on-farm quality, quarantine, and identity preservation procedures.

Whereas Mortensen stressed why Iowa needs biopharming, Greaves focused on why Iowa is an excellent location for it. He stressed the breadth of Iowa's assets in building a new agricultural value chain: abundant raw materials, leading research centers, strong university training, a quality workforce, research parks, existing critical mass of agricultural production, and the presence of industry leaders. To fully exploit these resources, however, Iowa must develop stronger university-industry linkages and encourage new industry clusters. Current efforts are heavily concentrated in the first-stage processing of commodities rather than in the higher technology segments.

Stephen Howell concluded the Iowa case study by focusing on the crucial links between industry and universities. While public spending on plant breeding is declining, universities still play a strong role in research and in the distribution of information (*Nature Biotechnology*). Universities can serve as forums for the exchange of information between experts of various disciplines, training and educating facilities, and even as mediators between the advocates and opponents of biopharming.

Iowa State University is building its future role with "the alpha project," a major effort to keep the university at the forefront of crop research. This pilot project will result in a multitenant biologics facility in the Iowa State University Research Park. The facility will allow firms to extract and purify pharmaceuticals and nutraceuticals from conventional or transgenic plants in preparation for FDA trials and commercial release. In short, the biologics facility gives farm producers in Iowa the research and technology distribution support they need to make the biopharm cluster a commercial success.

Overcoming Borders in the Four Corners

In the second case study, David Eppich, Greg Anesi, and Tom Taylor examined a very different region—the Four Corners in the Southwest. David Eppich argued that the Four Corners represented a natural

region that unfortunately has been divided historically by government lines drawn in the sand. Eppich quoted Kent Briggs, a senior fellow at the Center of the New West, who said, "...the Four Corners area is unified culturally and geographically, but is hampered by political boundaries that do not relate to natural boundaries. For this reason, political and economic cooperation are vital to the creation of any region-wide effort." The San Juan Forum was created in 1991 to bring about that very cooperation and thus promote Four Corners regional development. The Forum is designed to promote the regional exchange of information, regional unity and identity, and collective efficiency in the use and development of the region's resources.

The Forum's success depends heavily on its participants and the support it receives. The Forum receives strong educational and research support from two regional colleges—Fort Lewis College in Durango, Colorado, and San Juan College in Farmington, New Mexico. While the Forum has been quite successful in fostering high levels of regional partnership, Eppich concluded that the Four Corners region still faces three main challenges: the lack of centralized data concerning the regional economy, inadequate infrastructure in parts of the region, and widespread unemployment.

Greg Anesi elaborated on Eppich's list of regional challenges, focusing on the hurdles facing rural entrepreneurs. Cultural differences between workers and managers present difficulties, as do the lack of large-scale air transportation and government regulations, which are frequently written with cities in mind and ignore rural places. Notwithstanding these challenges, though, Anesi sees many compelling benefits to being an entrepreneur in the Four Corners. These benefits range from the labor available on local reservations to the region's informal capital markets, where it is still possible to obtain capital from people who know you. Anesi also mentioned that freight costs are not a competitive liability, since the low cost of labor, land, construction, and regulatory compliance offer an advantage when shipping to the West Coast, an advantage that more than compensates for the higher cost of shipping to the East Coast.

Anesi stressed the importance of investing in human capital—and the crucial role successful businesses play in helping fund such investments. He concluded that "if we do not create business in the Four Cor-

ners region, we will not create the tax dollars to support and educate our greatest resource. Our children will move to other states and other urban settings where they can find jobs.” The next generation is a powerful factor in his own business planning, and the same concern, he suggested, should continue to be a part of the Four Corners’ efforts to build a long-term economic development plan for the region.

Other conference participants echoed the importance of human capital investment in building strong regions. John Quigley noted that improved regional educational programs make people more productive “where they are,” but also make them more apt to move. Brady Deaton highlighted the crucial role that community and regional colleges can play in lifting worker skills in a region. Such colleges, Deaton argued, are the backbone for creating business networks and assuring that workforce issues are dealt with by the entire educational system in partnership with the private sector.

Tom Taylor stressed the “just do it” ethic that permeates the region’s strong spirit of cooperation. He recounted how innovative public and private leaders had successfully brought new fiber optic connections to the region’s key communities. This is but one example of how businesses and governments must never allow the policy or regulatory status quo to stand in the way of progress.

Taylor also discussed several issues that he viewed as important parts of a long-term economic development plan for the Four Corners region. Tourism will continue to provide revenue for the Four Corners, but opportunities should be pursued to add value through eco-tourism and heritage tourism experiences. Energy production will also continue as a source of revenue, but renewable energy production should be explored. Rural health care reform is vital as providers and receivers are very concerned about care for the very old and the very young. Workforce education and training is more important than ever, especially given the relatively high levels of unemployment in the region. Finally, additional investments in physical infrastructure (including fiber networks) will be necessary to further tie the region together.

III. PUTTING REGIONS INTO PUBLIC POLICY

The final conference session examined how public policy must adapt to help rural firms and communities forge better regional partnerships. Participants agreed that regional partnerships are a crucial focal point for rural policy, but most also agreed that current policies give little thought to regional development. Instead, the nation continues to focus most development efforts on individual communities or firms. Participants were optimistic, however, that a new paradigm of regional partnering could redefine several government programs.

Jim Moseley agreed that regional partnering will be an essential part of U.S. rural policy in the future. However, he also noted the need to balance regional partnering with engaging rural America's vital businesses and recognizing the autonomy of its communities.

Moseley identified four major changes that provide the essential context for new directions in rural policy. Technological change has dramatically altered the structure of agriculture while also opening up new opportunities with special use farm products, including pharmaceuticals. Commodity markets have become the province of large scale producers, while the best opportunities are now found in specialty products. Advances in telecommunications and logistics are essentially redrawing the economic map in rural America, with rural businesses now going far beyond the local community to source their inputs and market their products. Finally, rural people increasingly move to new opportunities, a trend that is creating a mixed blessing across the countryside.

These driving forces have important implications for the future of rural policy. They suggest that policymakers must work together as never before, avoiding the "stove-piping" that can beset government agencies. That is, it will be important for government agencies to partner in spite of missions that may have kept them separate in the past. The trends in the rural economy also suggest that rural policy must be flexible enough to support new opportunities and open enough to engage the strong local stakeholders in rural America.

Rural policy must be guided by the goal of helping rural firms and communities attain critical mass. A regional approach is a logical way of achieving such synergies, Moseley concluded. However, he also stressed the need for policies that preserve the value of rural America's rich mix of local communities.

In looking at the future of rural policy, Moseley suggested that there is no shortage of rural programs. What is needed is more effective coordination of these programs.

There are three major challenges in achieving a more regional focus in U.S. rural policy. First, regional partnering will require a high level of cooperation across government and between levels of government. New structures may be needed to bridge gaps in how departments and agencies communicate and cooperate. Second, the private sector must play a critical role in the development of new rural strategies and partnerships. The private sector will remain the source of new jobs in rural America. Yet, government and nonprofit organizations can play a valuable role supporting and facilitating new regional efforts. Finally, new ways will be needed to help rural firms tap capital markets to fund 21st century rural opportunities.

The conference overview panel also pointed out several policy implications. Brady Deaton noted that regional cooperation will have to be a new thrust of public policy and public institutions. He pointed to a major new research partnership centered on life sciences among mid-western universities as a model of the kind of cooperation that will be required to seize new opportunities in rural America. Such cooperation will not come easily, but lies at the heart of rural culture. Harking back to Quigley's presentation, Deaton argued that one key thread in forging new partnerships will be continued investments in rural amenities and quality of life. He agreed with many conference participants that interdependent value chains will be commonplace in the rural economy of the future. He urged policymakers and business leaders to help create a vision of entire value systems that takes into account how the various pieces fit together.

Jane Patterson agreed that regionalism is essential to rural America's future, but she sees difficulty in re-shaping state legislative agendas in that direction. While the best rural economic opportunities will require regional partnering, Patterson wondered how this new business

model can be made compelling to state legislatures, where counties and communities remain powerful points of action. She took hope in the power of technology, however, believing that technology is already redefining business and government networks through new forms of communication. Innovation, in fact, will be a key to the success of rural America, and it will be important to create public and private institutions that support new technologies and new forms of collaboration.

Curtis Johnson suggested that there were many positives shaping the future of rural policy. He noted optimistic echoes throughout the conference—from the bold new frontier of biopharming to regional manufacturing alliances. That economic optimism is coupled, he suggested, with a brash “can-do” attitude across rural America, an attitude summed up by the strong wind of leadership in the Four Corners that swept away the lines in the sand drawn by government.

Yet while the economic case for regional partnering is compelling, Johnson suggested that the political model for corresponding policy decisions is troublesome. Urban analysts increasingly conclude that the most pressing problems in society sort out at three levels—internationally, locally, and regionally. Meanwhile, our public decision model still relies on federal, state, and local levels of governance. Neither cities nor rural areas have effective formal arrangements for making public decisions at the new levels of reality.

One answer may be to think about more “place-based” kinds of policy for rural regions. While most conference participants viewed such policy as a positive step away from industry subsidies, like farm programs, Johnson reminded the conference that it may be difficult to find criteria to justify new investments in rural places.

Still, he concluded that there may be an innate value in rural America that will help guide and propel new rural policy. The Four Corners region, he suggested, is a story about redefining the maps and myths that hold us together as a people. The essence of the Four Corners—an extraordinary sense of community—may be what many Americans now yearn for. A recent informal study asked people in Minneapolis where they wanted to live in the future. The answers were all couched in terms of small town values—a sense of place, of belonging to one another, of interdependence and responsibility for each other’s kids. People sense that the nation has lost those values over the past few generations, and

now they want to retrieve them. In the end, Johnson concluded, the greatest power of rural regions is the potential to teach us how to repair and strengthen the fabric of American society itself.

IV. CONCLUSIONS

Rural America has an exciting frontier of new opportunities. Conference participants were genuinely upbeat about the opportunities ahead. Pharmaceutical crops, in particular, grow the rural economic pie in ways previously thought unimaginable. Yet the frontier will not be won easily. In many cases, including pharmaceuticals, new business relationships and partnerships that achieve critical mass are essential to capturing new economic gains.

Thinking regionally offers great power in building these synergies. In the end, leadership may be the essential ingredient in forging new regions in rural America. Tom Taylor noted that this notion is central to the success of the Four Corners region. "There is a conscious process by the public in electing leaders who think *regionally*" he said, an idea that resonated with other conference participants. "Policymakers must recognize the fact that we are a socioeconomic unit," Taylor concluded, "and the decisions we make in our individual communities go far beyond the lines in the sand."

ENDNOTE

¹ Price, Steven C. 1999. "Public and Private Plant Breeding," *Nature Biotechnology* October.