Addressing Community and Economic Development in Rural America

Trends, Challenges, and Opportunities

By Naomi Cytron

In 1908, concerned about the declines in rural America following urban and industrial expansion, President Roosevelt established the Country Life Commission to investigate options for improving the conditions of rural life. "I warn my countrymen," he wrote, "that the great recent progress made in city life is not a full measure of our civilization; for our civilization rests at bottom on… the completeness, as well as the prosperity, of life in the country."[1] Nearly 100 years later, in his 1999 State of the Union Address, President Clinton drew attention to the continued lagging economic conditions in rural America, saying, "We must do more to bring the spark of private enterprise to every corner of America – to build a bridge from Wall Street to Appalachia, to the Mississippi Delta, to our Native American communities….Our greatest untapped markets are not overseas, they are right here at home and we should go after them."[2]

"Going after" rural markets is not easy, however. Rural places pose unique challenges in terms of both economic and community development. Remoteness, lack of public infrastructure, and low population densities all make attracting private enterprise difficult. And the sheer diversity of rural America means that there are no one-size-fits-all solutions. But in recent years the rural community and economic development fields have been working toward bolstering economic opportunities and quality of life in rural areas through approaches that seek to build upon the unique strengths and capacities of rural places.

Trends in Rural America

According to the U.S. Department of Agriculture, the latest estimates indicate that approximately 50 million people, or one in five Americans, live in rural areas.[3] (See Box 1.1) The share of the rural population in the U.S. has declined steadily since the 1930s, but in recent decades many rural areas have nevertheless seen an increase in population, not a decrease. Rural areas in the Federal Reserve's 12th District have witnessed particular growth. (See Figure 1.1)

The recent growth in the rural population is driven by a number of factors. Immigration, which has altered the demographic composition of many urban areas, has also changed the face of many rural towns; while in 2003 the Hispanic population still only constituted six percent of the rural population, the Hispanic population increased dramatically in many rural areas in the 1990s (See Figure 1.2), and is the most rapidly growing group in nonmetro areas.[4] In addition, a number of rural areas in Western states are increasingly being chosen as retirement destinations, and as a result have experienced higher than average rates of growth in recent years. These shifting demographics have a number of environmental, social, and political implications, including the encroachment onto agricultural and forest lands, the increased demand for housing and public infrastructure such as roads and schools, and the challenges of cultural assimilation and integration.

The economic landscape of rural America has also shifted in significant ways, and is difficult to characterize in broad strokes. In a survey conducted by the William K. Kellogg Foundation in 2001 to assess perceptions of rural America, the overwhelming majority of respondents expressed the belief that agriculture is the dominant industry in rural America.[5] In reality, though, over the past 30 years, the proportion of agricultural jobs in rural and small-town America has dropped in half to compose only six percent of employment.[6] Natural resource extraction has also declined in many areas. Manufacturing jobs, which accounted for nearly 20 percent of jobs in rural areas in the late 1970s, composed 12 percent of jobs in 2005 in those same counties. These shifts are in large part due to global changes in the siting of manufacturing plants and increases in productivity in both farm-related and manufacturing industries.

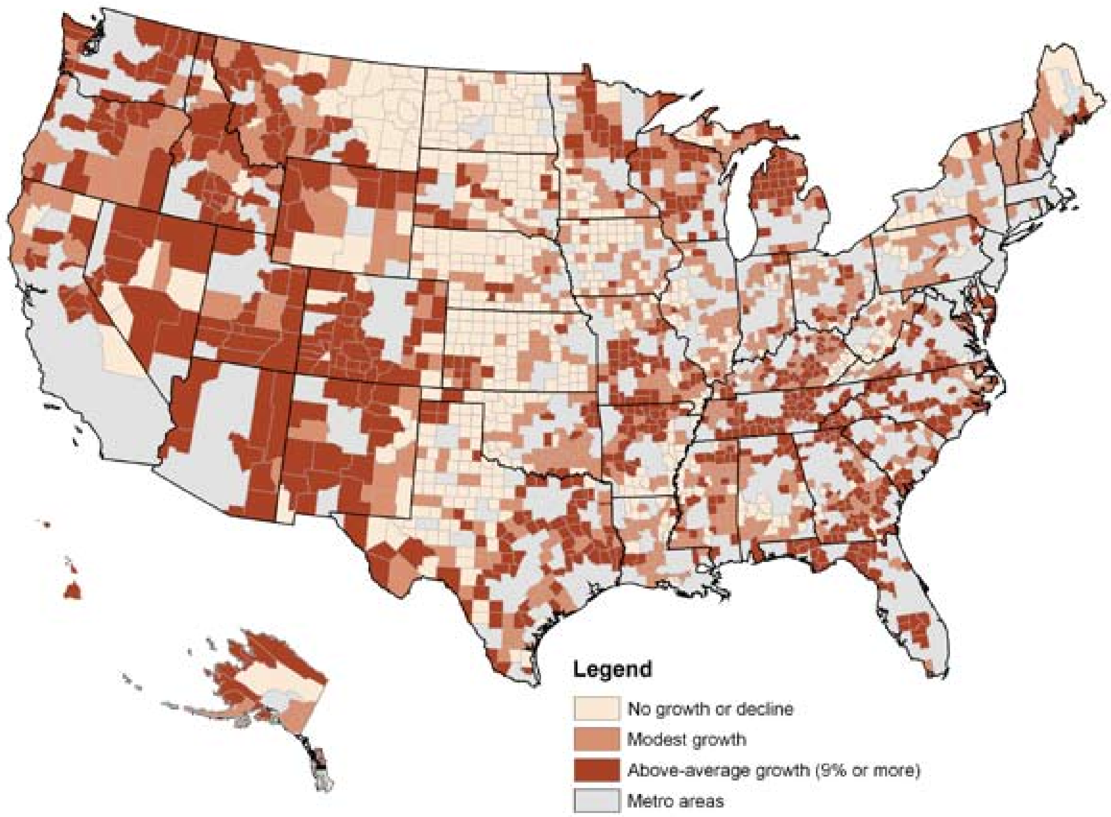
What is a Rural Area?

Box 1.1

What do we mean when talking about rural places? Population size, population density, distance from a large metropolitan area, commuting patterns and other measures can be used to define the "rural" nature of a place. The United States Department of Agriculture (USDA), which conducts research on a broad range of topics relevant to rural America, notes that many researchers and policy planners have adopted a designation system for "rurality" that includes "all places and people living outside the primary daily commuting zone of cities of 50,000 people or more."[16]

Rural Population Change, 1990–2000

Figure 1.1

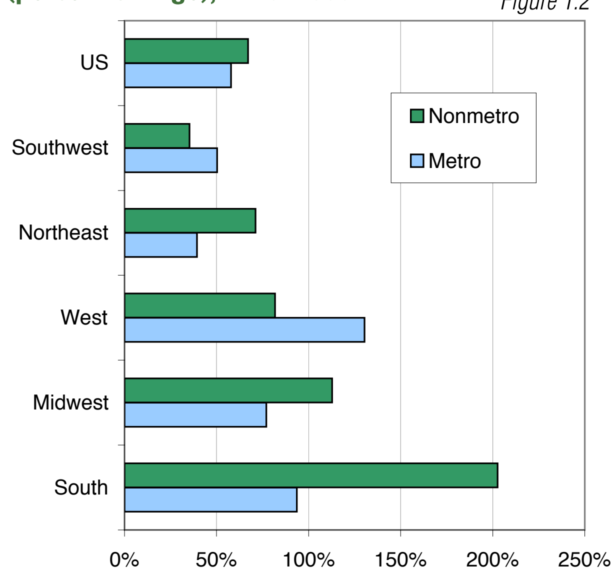


In some rural communities, these losses have contributed to widespread unemployment and entrenched poverty. Rural poverty, though it varies by region and along racial and ethnic lines, is consistently higher than urban poverty (See Figure 1.3) and is more persistent. Nearly all of the counties experiencing persistent poverty, defined as decade-over-decade rates of poverty above 20 percent, are rural and concentrated mostly in Appalachia, the Mississippi Delta, the Great Plains, portions of the Southwest, and Native American reservations. (See Figure 1.4) While the majority of the rural poor are white, racial and ethnic minorities make up a disproportionate share of the rural poor; in three-quarters of the 442 nonmetro counties classified as high-poverty counties in 2000, either a majority of the poor were Black, Hispanic, or Native American, or it was only the prevalence of poverty among these minority groups that drove the county's overall poverty rate above 20 percent. (See Figure 1.5) Child poverty is also of particular concern in rural areas. In all, 48 of the 50 counties with the highest child poverty rates in America are rural, and the gap between urban and rural child poverty has widened since the late 1990s.[7]

Rural areas in the West have not, however, faced the same levels of worker displacement as areas in the Midwest or the Northeast, and have featured higher rates of employment growth in new industries in recent years. Service sector and retail jobs tied to growing tourist and recreation industries have shown particular growth in a number of Western rural counties, and harvesting and other agriculturally-related industries continue to offer significant employment op-

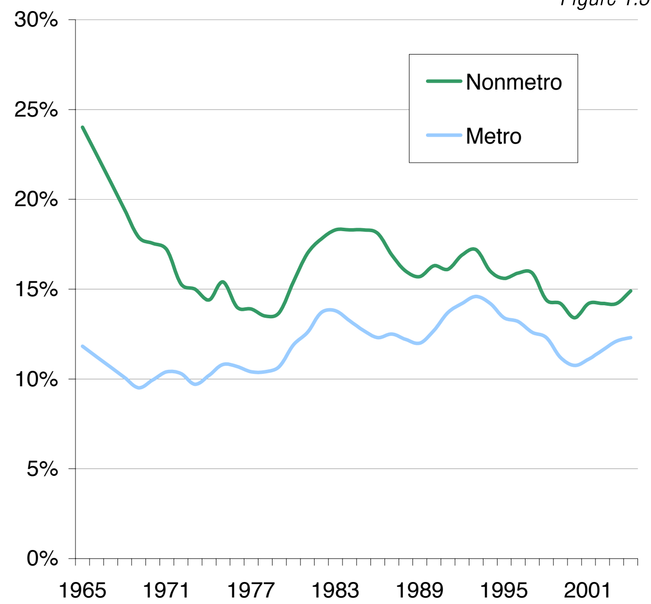
Growth in the Hispanic Population by Region (percent change), 1990–2000

Figure 1.2



Nonmetro Poverty Rates are Consistently Higher Than Metro Poverty Rates

Figure 1.3



portunities. The downside to this story is that these jobs are commonly low-wage and part-time, leaving many still struggling to make ends meet. In Washington, for instance, nonfarm jobs in rural areas in 2004 paid on average $31,500, while those in urban areas paid $48,000[8] – and farming jobs typically pay less than half this amount. While growth in wages in some rural areas in 12th District states has recently outpaced that in urban areas, the gap in earnings remains significant in all Western states, and is not made up for by lower cost-of-living in rural areas.[9]

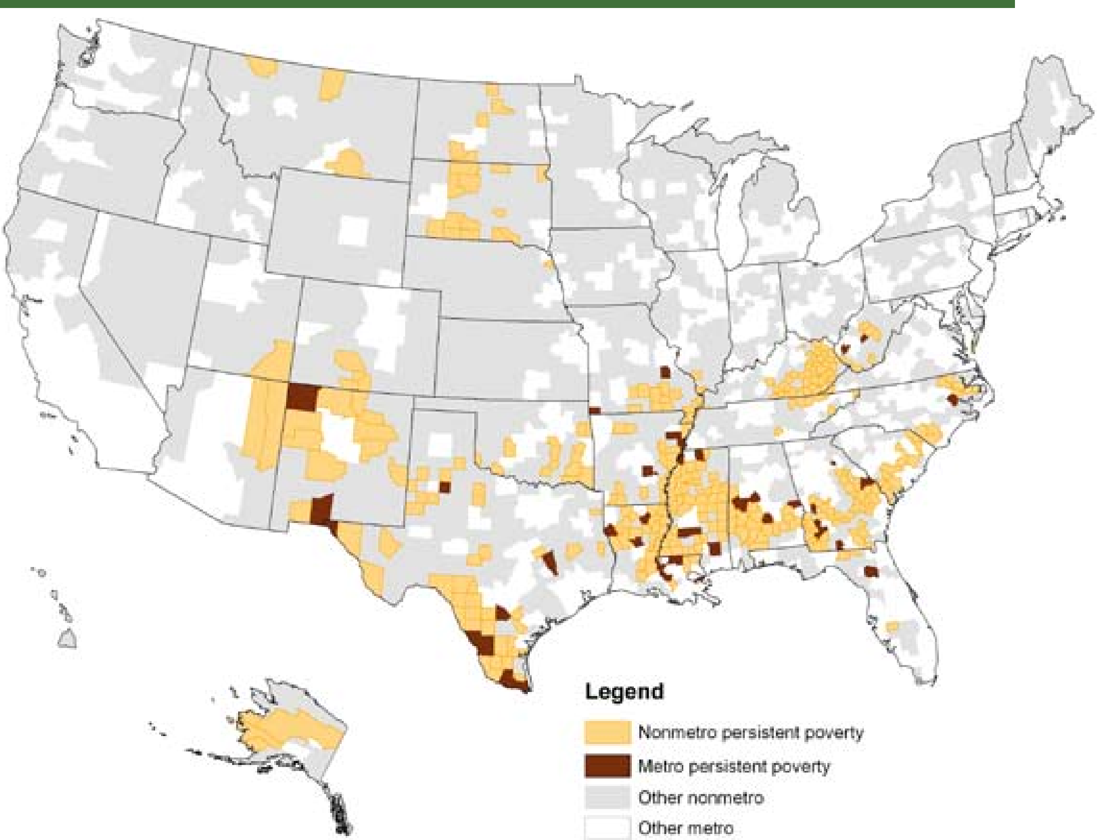
Assets and Needs in Rural Places

Aggregate statistics mask the wide spectrum of opportunity and experience in places classified as rural. Within the Federal Reserve's 12th District alone, communities in rural areas range from towns in the San Joaquin Valley where populations are doubling every decade and where job opportunities are found in industries revolving around farming and value-added food production, to small towns in Oregon that have seen population loss while experiencing declines in local employment associated with extractive industries such as mining and logging. The District is also home to a number of Native communities, including the Navajo Nation in Arizona. There are also hundreds of remote Alaskan tribes and villages where Alaska Natives are dependent on fishing and hunting both for sustenance and income. Towns built near natural and recreational amenities, with their attendant seasonal tourist flows, abound in the 12th District, too.

The assets and needs of these rural communities are no less diverse than the communities themselves. Broadly

Most Counties Experiencing Persistent Poverty are Nonmetro Counties

Figure 1.4



speaking, though, there are a number of characteristics of rural places that complicate the replication of community and economic development programs and projects typically employed in urban areas. Tax bases are generally limited in rural places, which hampers the ability of local governments to produce and deliver a range of services. This can result in limited or low-quality public infrastructure, such as roads, public transportation, utilities, and information technology systems, which can impede the growth of businesses and industries in rural and remote areas. Low population densities and geographic dispersion can also mean that community and civic organizations, such as local libraries and health providers, have difficulty developing or maintaining operations. There is also a general trend of "brain drain" in rural areas, with those who attain higher educational levels seeking residence and employment in metropolitan areas rather than in the rural communities in which they were raised.

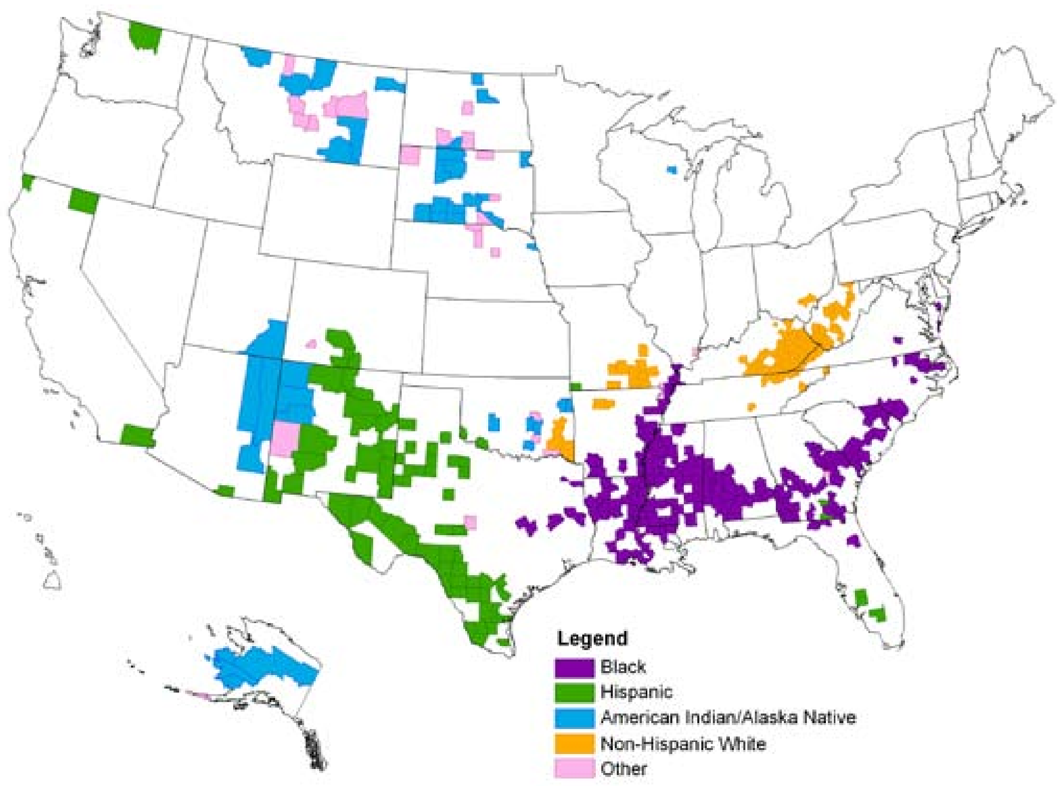
As a result, a number of community development concerns have surfaced in rural areas. Even housing, which tends to be more affordable in rural areas, poses a challenge in many rural areas in the 12th District. The 2000 Census showed that many of the non-metro counties in Northern California, Oregon, and Washington qualified as "housing stress" counties in 2000, meaning that households were facing one or more of the following conditions: lack of complete plumbing, lack of a complete kitchen, payment of 30 percent or more of income for housing costs, or overcrowding.[10] In those areas seeing population growth, affordability is a major challenge with demand for housing outstripping supply. This tipped balance is due in part to limited capacity and difficulties in financing affordable housing development in rural areas; for instance, USDA subsidies for multifamily rental housing have diminished considerably in the past 10 years, resulting in a decline in production from nearly 12,000 units in 1994 to 800 units in 2006.[11] In addition, low wages and limited availability of sites where housing units can be built complicate the development and maintenance of safe and affordable housing for the many farmworkers who harvest fields and process agricultural products. (See "Si Se Puede: Developing Farmworker Housing in the 12th District").

Other community development efforts that pose challenges in rural areas include providing funding and technical assistance to entrepreneurs, promoting workforce development, and improving access to health care and other social services. As a number of articles in this issue argue, the development of entrepreneurial capacity may be

Figure 1.5

High-Poverty Rural Counties, 2000

Racial and ethnic minorities experience disproportionate poverty levels in rural areas, and there are regional variations in the composition of the poor population in high-poverty areas – those with a poverty rate above 20 percent. This map shows the majority racial and ethnic composition of the poor population in each high-poverty county in 2000. For example, in counties shaded in purple, the majority of the poor are Black; in green, the majority of the poor are Hispanic. The diversity both across and within high-poverty areas means that there is no single recipe for building wealth and assets.



particularly important in helping to build rural economies and provide living wage jobs. Training workers with the new skills required for shifting economies and emerging industries is also critical. Issues surrounding the provision of health care are of vital importance as well, particularly in communities with aging populations. Large metropolitan counties have nearly four times as many physicians per 100,000 residents as do rural counties with only small towns, and specialized medical care is even more difficult to access. For communities coping with a rapid influx of new residents, there is a need for new schools, roads, sewer systems, and emergency services. All of these community and economic development demands–along with their financial costs–often surpass the ability of local rural governments to provide them. This public finance challenge is compounded by historic limitations in private investment and nonprofit activity in rural areas.

Shifts in the Community and Economic Development Landscape

While there are certainly a host of challenges rural America, attention has started to turn to the question of how to adjust community and economic development strategies to address the local needs–and build on the local assets–of rural areas.

In particular, rural economic development strategies have begun to shift. Rural areas have traditionally built economic development plans around offering incentive packages to large corporations and manufacturing plants, which, in relocating to rural areas, can provide much-needed high wage jobs and generate multiplier effects in a local economy. However, policy-makers, academics, and practitioners have begun to advocate for a more home-grown approach to rural development that seeks to identify and build upon internal community assets, such as development of entrepreneurship capacity. (See "Morphing Rural Community Development Models") The National Governor's Association (NGA), for instance, has put forth a rural policy agenda that emphasizes the development of local and regional business clusters, agricultural diversification, and the promotion of entrepreneurship. The NGA notes that "however they are formed and implemented, rural economic development policies must build upon the inherent strengths of rural America, chief among them are abundant natural resources, close-knit communities, strong local business networks and a largely untapped tradition of entrepreneurial creativity."[12]

Community development corporations, which often play a significant role in setting the stage for entrepreneurship as well as developing other community assets, have become increasingly active in rural areas. It is estimated that as of 2005, there were over 3,000 rural community development organizations pursuing activities such as housing development, small business and entrepreneurship training, transportation assistance, and health care provision.[13] This is nearly double the number of rural community developers estimated as active in 1998.

Despite this growth, however, rural communities need additional leadership development and training to effectively implement programs for change. To address this, several foundations, including the W.K. Kellogg Foundation and the Northwest Area Foundation, are devoting resources to help improve the vitality and wealth of rural communities through the development of local leadership and entrepreneurial capacity. (See "Big Lessons from Small Rural Communities") The USDA also recently announced a new wave of matching grants under its Rural Community Development Initiative, which provides funding for technical assistance and capacity building for rural community developers across the nation. Building the capacity of rural communities to implement community development strategies will ensure that projects incorporate the values of local residents and respond to local strengths and needs.

"However they are formed and implemented, rural economic development policies must build upon the inherent strengths of rural America . . ."

Leadership capacity is not the only challenge in rural areas; additional financial capacity for comprehensive community and economic development initiatives in rural areas is also needed. Factors like remoteness and low population density have traditionally limited the range of financial institutions active in rural areas. Rural community development activities in areas have thus tended to garner less financial support from banks, as well as from corporations and foundations, than urban areas[14] and have depended heavily on federal financing that streams through the USDA, such as its Housing and Community Facilities Programs and its Water and Environmental Programs. There are, however, a number of organizations that are seeking to increase rural access to financial resources. For example, on the lending side, Rural Community Assistance Corporation works in partnership with financial institutions to fill financing gaps in rural areas through a loan fund for community development and infrastructure projects. (See "Lending for Rural Development Projects") In response to the financial and economic development needs in Native communities, there has also been an emergence of Native Community Development Financial Institutions. (See "Native Community Development Financial Institutions")

On the equity side, organizations such as the Kentucky Highlands Investment Corporation have worked to increase the availability of venture capital and technical assistance for rural entrepreneurs. These organizations build on the efforts of federal initiatives such as the New Markets Tax Credit program and Rural Business Investment Companies to increase the availability of equity capital in rural markets. Although critical, this sector remains limited in its ability to substantially promote and support rural small business development and innovation. (See Box 1.2)

Conclusion

The diversity of experience in rural places demands that more attention be paid to the dynamics of opportunity in rural areas, and to appropriately target resources to remedy the "poverty of services" that often occurs in low-wealth places and even more so in remote, rural areas. Designing innovative ways to enhance levels of human capital and boost the availability of financial capital will be critical to these endeavors, as will finding ways to leverage limited federal spending in rural areas; government statistics show that from 1994 through 2001 federal spending on a per-person basis from all federal departments and agencies to rural areas lagged spending to metro areas.[15] Developing new avenues for a range of investments is vital for facilitating the expansion of economic opportunity and improvement in the quality of life in rural areas, both in the 12th District and nationwide.

Financing Rural Innovation with Community Development Venture Capital

Box 1.2

The creation and growth of innovative companies is a path to economic prosperity for many rural regions. It also is a means to economic opportunity for rural residents. Access to equity capital is a critical component of business entrepreneurship—young companies need patient capital, such as equity and near-equity, to develop and get their products ready for market.

Rural economies, however, rarely attract traditional venture capital. This is due in part to the structural impediments they pose for the traditional venture capital model. Because the primary driver of traditional venture capital is profit maximization, the industry tends to gravitate to geographies that maximize potential investment opportunities and minimize operating costs; examples include Silicon Valley in California and Route 128 in Massachusetts. Such geographies have a critical mass of potential investment opportunities and the supporting infrastructure in the form of technological, managerial, legal and financial expertise necessary to take ideas to market. Their proximity to desirable quality-of-life amenities also enables these geographies to attract venture capitalists, who can minimize travel time and operating expenses by living near their investments.

By contrast, rural geographies are characterized by limited deal flows and supporting infrastructures, and remoteness that makes oversight difficult. Because of these structural impediments, the venture capital that exists in rural areas tends to be developmental in nature. Unlike traditional venture capital, which has a primary objective of financial returns for investors, developmental venture capital is designed to foster both social and financial returns. In the case of rurally-focused developmental venture capital firms, the social returns are often in the form of economic growth, either general or specifically targeted at helping low-and moderate-income populations.

Community development venture capital (CDVC) is one form of developmental venture capital that has evolved in rural areas. Like traditional venture capitalists, CDVC providers make equity and near-equity investments in small businesses.[1] However, their investments are predicated on a company's potential for high-quality job creation for low- and moderate-income individuals as well as its likelihood of rapid economic growth. As a result of this dual-bottom-line, CDVCs are willing to invest in companies in numerous industries, stages of development, and locations. This flexibility, as well as the operating model that it has fostered, further differentiates CDVC funds from traditional venture capital, and makes this model particularly well suited to address the structural impediments that rural areas present.

The obstacle to growing more rurally-focused CDVC funds is this model's need for subsidy. The present economic, political and normative environments seem hostile to overtly subsidy-based models, particularly those intended to benefit low- and moderate-income populations. This has limited both the growth of new CDVC funds and the capitalization levels of existing ones.

The federal government and commercial banks have provided support for this industry, but changes in public policy are necessary to encourage the continuation of their support. There also are several funding sources that could play a greater role in capitalizing new CDVC funds, including state governments, pension funds, and individual investors. Once again, public policy is essential in providing incentives for these actors to play a greater role. A well-coordinated policy approach can result in significant resources for fostering the innovation and entrepreneurship that will enable rural areas to participate in the knowledge economy.

Note: Adapted from "Financing Rural Innovation with Community Development Venture Capital: Models, Options and Obstacles," by Julia Sass Rubin. To read this article in its entirety, as well as other articles on this topic published in the Community Development Investment Review, *please visit http://www.frbsf.org/publications/community/review/122006/index.html*

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1 In this article, "migrant" refers to the seasonal workforce that travels more than 75 miles from their home to find employment.

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