

The Brave New World of Regional Development in Rural America

CENTER FOR REGIONAL
COMPETITIVENESS



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Globalization has profoundly changed what works in rural development.

- For a more than a half-century, rural development was “recruiting a factory to the edge of town and giving away the farm to get them.”
 - This “buffalo hunting” was fierce, expensive, and intensely local. Single counties were the “athletes.”
 - Low-cost labor, land, and taxes were the critical ingredients.
- Globalization has changed this paradigm.
 - Too many places around the world have even lower costs.
 - Indeed, the field of play has shifted:

From cost to innovation.



The problem is that rural policy and development practice have not kept pace.

- **Policy still has two main prongs — A & M.**
 - The focus is on sectors, not places.
 - This equates to a “one size fits all,” or a “tide to lift all boats.”
- **Development practice is still mostly rooted in a 20th century game plan — *all that buffalo hunting.***
- **And many rural areas are losing ground in the economic race — lagging in “competitiveness” measures.**
 - Rural areas losing share in jobs, income, & population.
 - Very few rural regions are on the “leader board.”

The Whole World is Rethinking Rural Policy



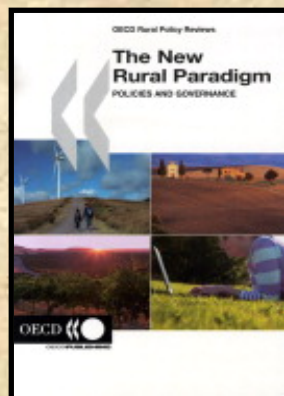
Territorial Development Policy Committee (TDPC) at Ministerial Level

Investing for Growth: Building Innovative Regions

OECD Conference Centre, Paris / 31 March 2009

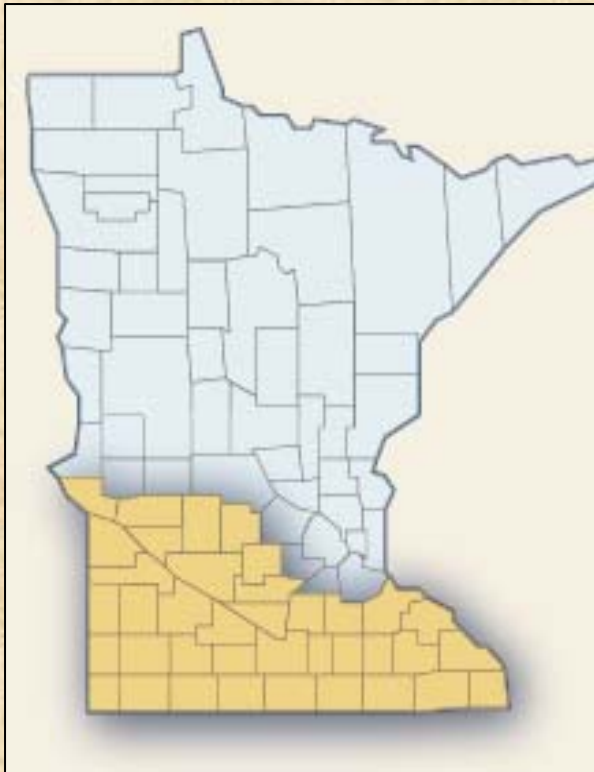
Policy best helps regions (rural *and* urban) compete in the global economy through place-based measures that:

- 1. Encourage critical mass (think regionally to compete globally).** Regional partnerships are more art than science, though good models are emerging. Federal policy can create good incentives for such models to flourish.
- 2. Prioritize investments in public goods and services** that unlock a region's competitive advantage (of special value at a time when governments are focused on fiscal stimulus). Tools to set priorities are scarce but pay huge dividends.
- 3. Spur innovation that can transform a region's economy.** Innovation is a regional phenomenon, yet policies are still most often focused on technology at the federal level.



A “place-based” framework for rural policy founded on 20 in-depth policy reviews from around the world.

The Southern Minnesota Regional Competitiveness Project: A Window on the Future of Rural Development



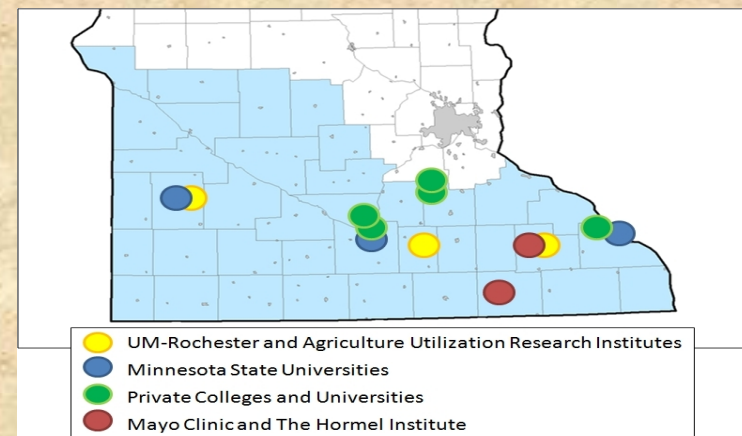
- A self-defined region with 38 counties and just under a million people.
- Ag-intensive, strong manufacturing base rural region, with world-renowned medical research facilities in the Mayo Clinic and Hormel Institute.
- In spite of many core strengths, two big concerns:
 1. *Incomes sliding relative to MN & US.*
 2. *A persistent exodus of youth & talent.*

Two Critical Facts about the Southern MN Economy

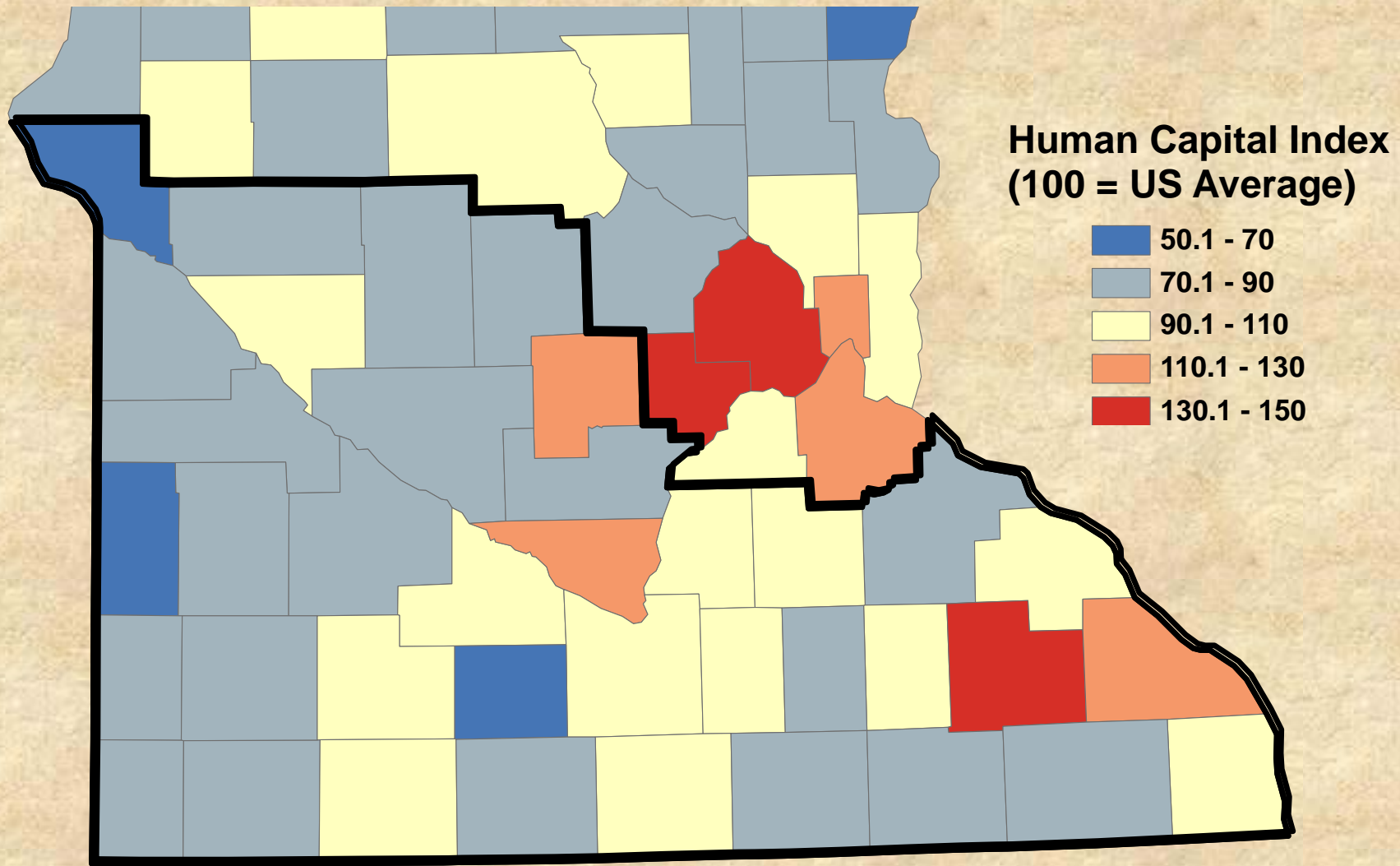
1. The current “3-legged stool” provides a sturdy economy, but it is not enough to gain ground in the economic race.

2. The region has powerful innovation engines, but it lacks a transmission with sufficient effect to transform the economy.

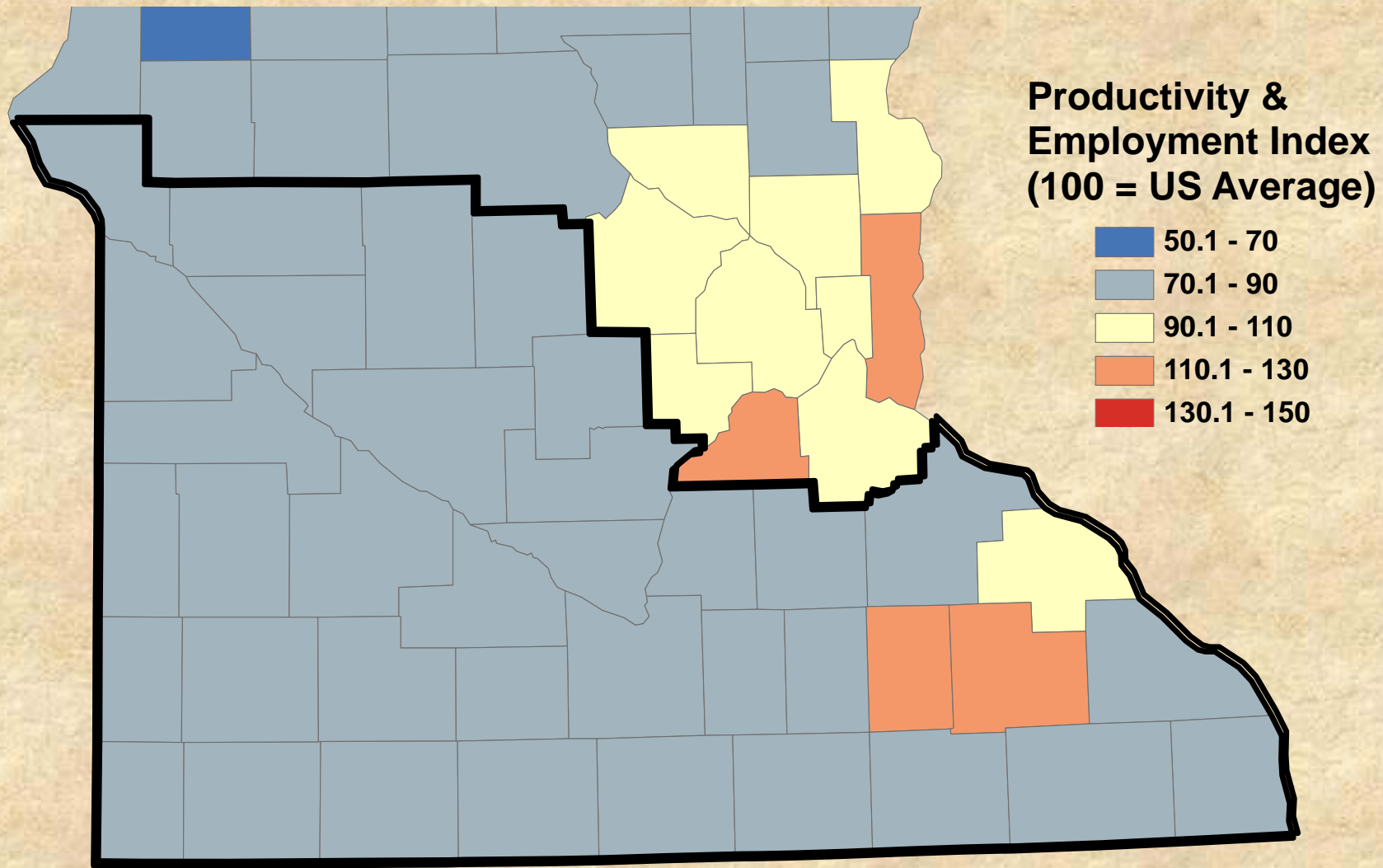
Sector	2007 Jobs	Surplus Jobs
Farm Employment	47,462	37,982
Manufacturing	87,306	42,246
Health Care and Social Assistance	93,740	39,359



To illustrate, Southern MN has strong human capital...



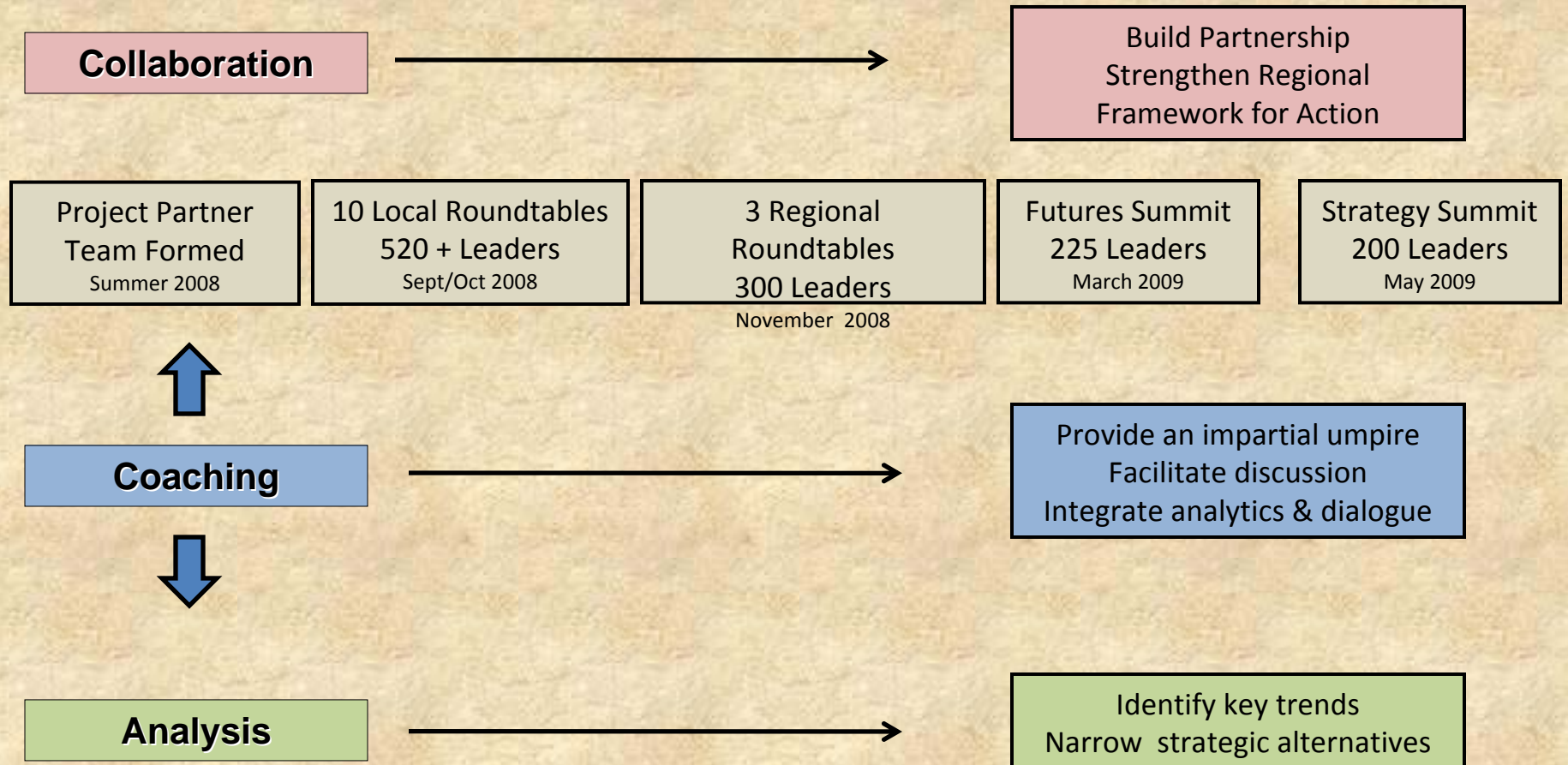
But sub-par "innovation" measures.



The Project had 4 critical goals.

1. **Strategy.** Compete in the global economy with critical mass based on what the Region does best.
2. **Partnership.** Build a better way for the Region to think and act as one region.
3. **Investment priorities.** Identify public investments critical to being a world-class competitor.
4. **Increase innovation capacity.** Enhance the Region's capacity to innovate, grow entrepreneurs, and create wealth.

Success depended on weaving together three critical processes.

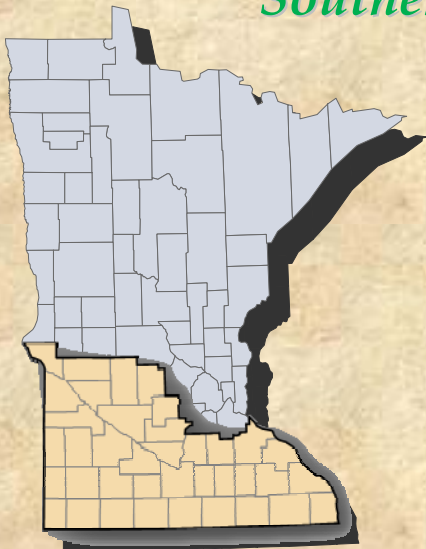


Three principles for prosperous rural regions.

1. Regional partnering to create critical mass.

Multi-county scale necessary to compete—and to unlock the best economic opportunities (“competitive advantages”). Indeed, the best opportunities often emerge *only* at the regional scale.

Southern Minnesota Regional Competitiveness Project



- 12-month project across 38 counties.
- Self-funded by 16 partners from the private sector, led by AgStar, SMIF, and others.
- Region has now formalized their partnership: *Southern MN Opportunity Roundtable*.

The Southern MN Opportunity Roundtable



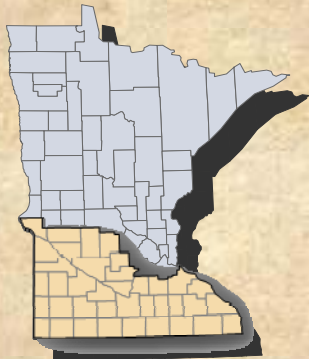
Five Critical Functions

- 1. Set investment priorities for public funds.**
- 2. Champion public policies critical to the future—speak with one voice.**
- 3. Foster the best possible conditions for economic synergies to ignite—constantly “connecting the dots.”**
- 4. Coordinate *Game Plan* actions—advocating for the “forest” of region-wide good.**
- 5. Track progress against milestones and change course when necessary.**

Three principles for prosperous rural regions.

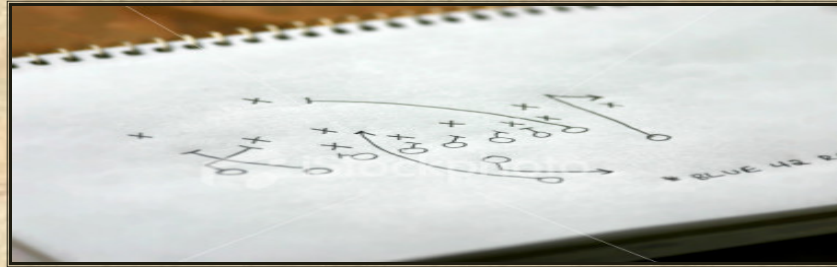
2. Focused investment on the region's competitive advantages, especially those that transform.

With globalization, asset-based development displaces business recruitment. Creating consensus on investment priorities depends on analytics, pooling local knowledge, and robust regional partnership — *all three are scarce in rural America.*



- 6 strategic opportunities, with agreement to prioritize three: bioscience, advanced manufactured, and renewable energy.
- An *Economic Game Plan* now on the table to execute over the next 24 months.

The Southern Minnesota Economic Game Plan



16 action steps over the next 24 months organized around four industry-specific *Forums*:

- Innovation
- Bioscience
- Renewable energy
- Advanced mfg

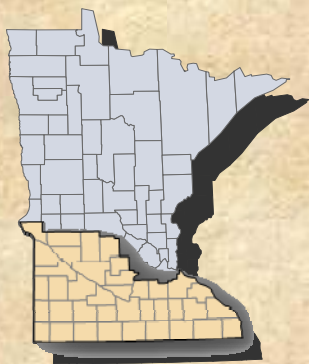
**Next comes the hard part —
*prioritized investing.***

Game Plan: <http://www.mnsu.edu/ruralmn/images/SMRCP%20Report.pdf>

Three principles for prosperous rural regions.

3. Building regional innovation systems — an innovation culture and transferring the power of innovation engines to the economy.

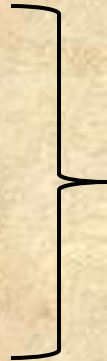
Recruitment remains the enemy of innovation—the culture looks back, not forward. While some rural areas have few innovation engines, many have them but lack a “transmission” that connects to the economy.



- Southern MN now recognizes it must “connect the dots” to harness the power of their many engines of innovation—even as they change the underlying culture.
- Two tangible outcomes:
 1. **Bioscience—brought together Mayo, Hormel Institute, and key farm groups to focus on plant-made pharmaceuticals, functional foods, and other new horizons.**
 2. ***Southern MN Innovation Institute* being considered to “connect the dots.”**

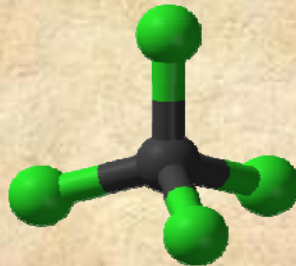
Bioscience in Southern MN is the epitome of "connecting the dots."

Connect



Three meetings to date

Synergize



Three possible projects to date



Act & Invest



? \$\$\$ & Timetable ?

What are the lessons for rural policy?



1. Federal policy can fill critical gaps in rural America and be a powerful catalyst in the process:

- ***Regional scale:*** incentives to overcome the legacy of county and state lines. *There are very few spontaneous regions like Southern MN!*
- ***Analytical tools:*** hone analytical tools and evaluate policy impacts.
- ***Presence:*** provide strong leadership to change the development paradigm.
- ***Persistence:*** this change will take years and will need steady, sustained leadership in Washington.

What are the lessons for rural policy?



2. Regional partnerships are crucial, as is the regional capacity to make a new generation of decisions.

- **Under the new paradigm, the policy balance shifts from DC to the regional level. For this to work, the region *must* have strong leadership and analytical capacity.**
- **Regional partnership is more art than science, but we must understand much better the conditions and incentives that produce it. *Without sustained regional partnership, rural regions default to the old paradigm and fall further behind.***

What are the lessons for rural policy?



3. There is a huge fiscal payoff to the new rural policy.

- **Regions that focus on investments most critical to their competitive advantage yield the biggest possible dividends to federal investment/stimulus.**
- **Accordingly, there is wisdom in designing “rural trigger funds” in DC that become available to rural regions only after they go through a process like Southern MN.**
- ***BUT*, we have far to go in helping regions do this.**

What are the lessons for rural policy?



4. **There are sound reasons for “coaching” to be a public good in federal policy. It is unlikely to emerge on its own.**
 - **Public sector coaches today are in very short supply.**
 - **It makes good sense to consider making “coaching” a public good—the returns will outweigh the cost.**
 - **There are powerful economies of scale in the skill sets, the delivery system, and the lessons that accompany it.**

What are the lessons for rural policy?



5. Rural capital markets must be a critical element in designing new rural policy.

- **Financial institutions have highly valuable information and leadership critical to regional development, but today most are on the sidelines.**
- **Equity capital looms much larger in an innovation-driven rural economy, but it remains an afterthought.**
- **The financial reform that is sure to come will have huge spatial implications. These deserve serious consideration.**