

Is There A Fountain of Youth in Rural Areas?

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Agenda

- ❑ Product cycle theory of Economic Development
- ❑ What are the challenges facing rural areas—
Let's be honest—it is not for everyone.
- ❑ What is the evidence of job creation in rural areas?
- ❑ What does Isserman tell us?
- ❑ Thoughts, suggestions and some crazy ideas.

Basic Economic Model



Thoughts on Economic Development

The very essence of long-run growth is, in fact, *the transition* ...from one export base to another as the area matures in what it can do, and as rising per capita income and technological progress change *what the world economy wants done.*

W.R.Thompson (1965)

Regional Aspects of a Product Life Cycle

Stage 1: Birth—*An environment of entrepreneurship*



Stage 2: Product development and wealth creation—*An encouraging environment for success*

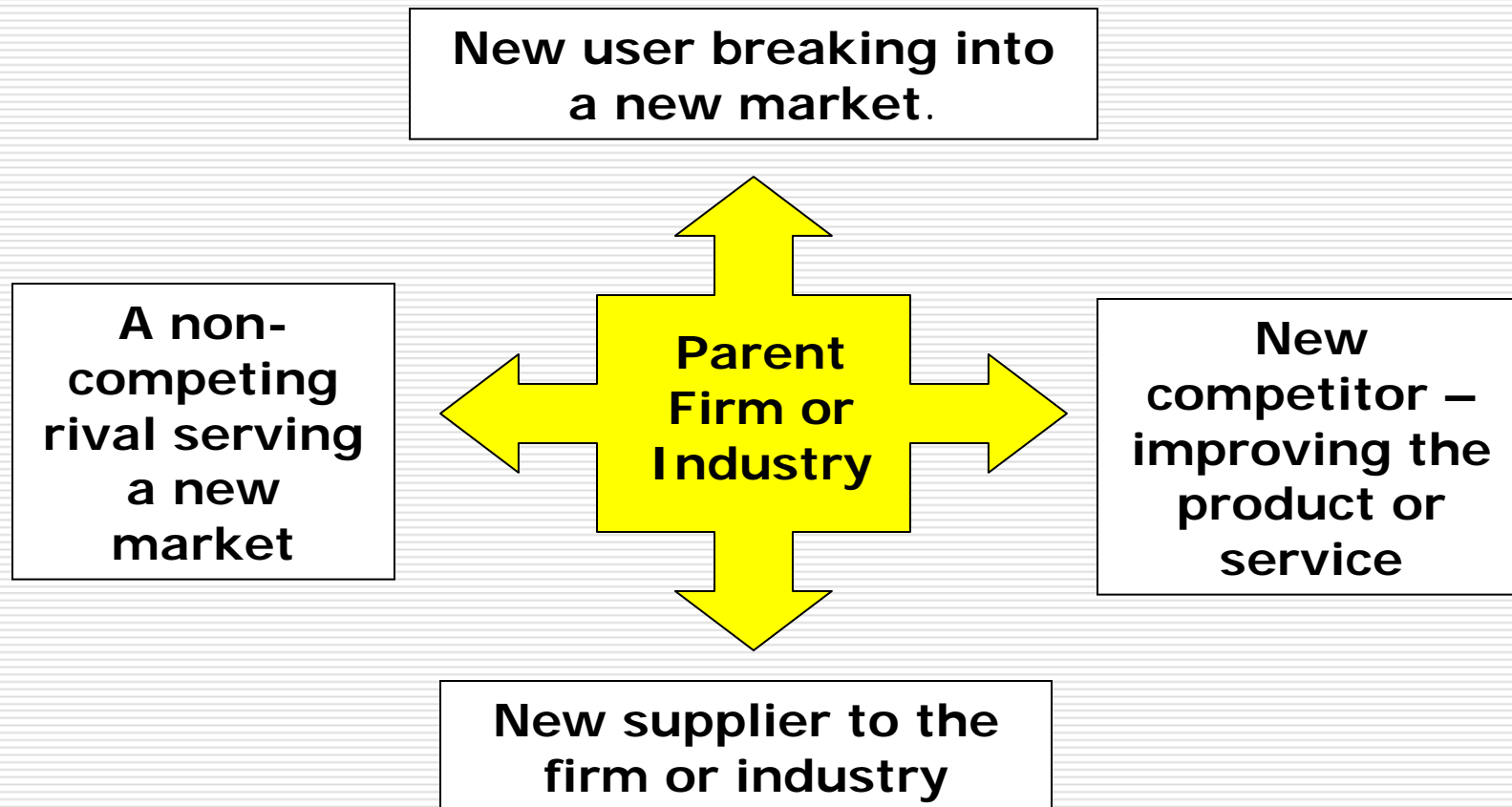
Stage 3: Product standardization—*Low cost, competitive environment*

Stage 4: Death—*An environment of abandonment*

Stage 1: Birth—*An environment of entrepreneurship*

- For knowledge-based industries a metro environment is more conducive.
 - Universities
 - Strong industrial clusters
 - “Face-to-face” contacts
 - The importance of the internet and telecommunications overrated at this stage

Stage 1: Birth—*An environment of entrepreneurship*



Each path requires industry knowledge, financial backing, and a fire in the belly.

Stage 2: Product development and wealth creation—*An encouraging environment for success.*

- For knowledge-based industries a metro environment is more conducive.
 - Venture capital linkages
 - Strong business and professional services
 - “Face-to-face” contacts
 - Quality of life

Stage 3: Product standardization— *Low cost, competitive environment*

- Rural areas become attractive
 - Low costs
 - Good work ethics
 - Low unionization rates
- Major barrier
 - Little research and development activities, meaning that there is little chance for new product development

Regional Aspects of a Product Life Cycle

Perhaps the best route for rural Michigan:

Stage 2: Product development and wealth creation—*An encouraging environment for success*

Stage 3: Product standardization
Low cost, competitive environment



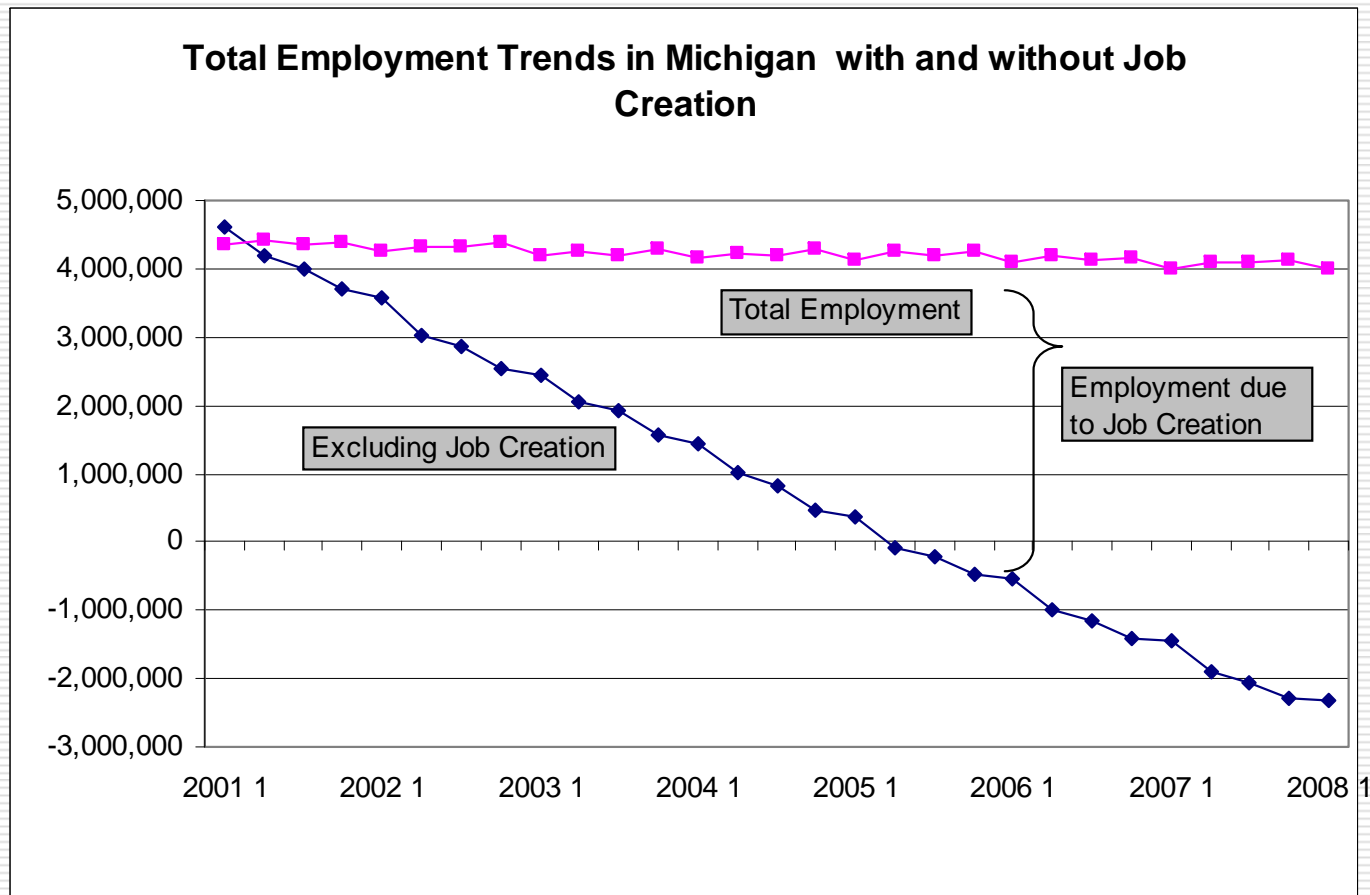
Key Beliefs on Local Economic Development

- ❑ Today's and tomorrow's emerging industries will likely hatch from today's industrial bulwarks.
- ❑ Existing firms can rebirth.
- ❑ The will and ability of the entrepreneur cannot be ignored.
- ❑ Nor can plain and simple luck.
- ❑ Still, many will fail.
- ❑ Emerging industries with "export" potential are what matters.

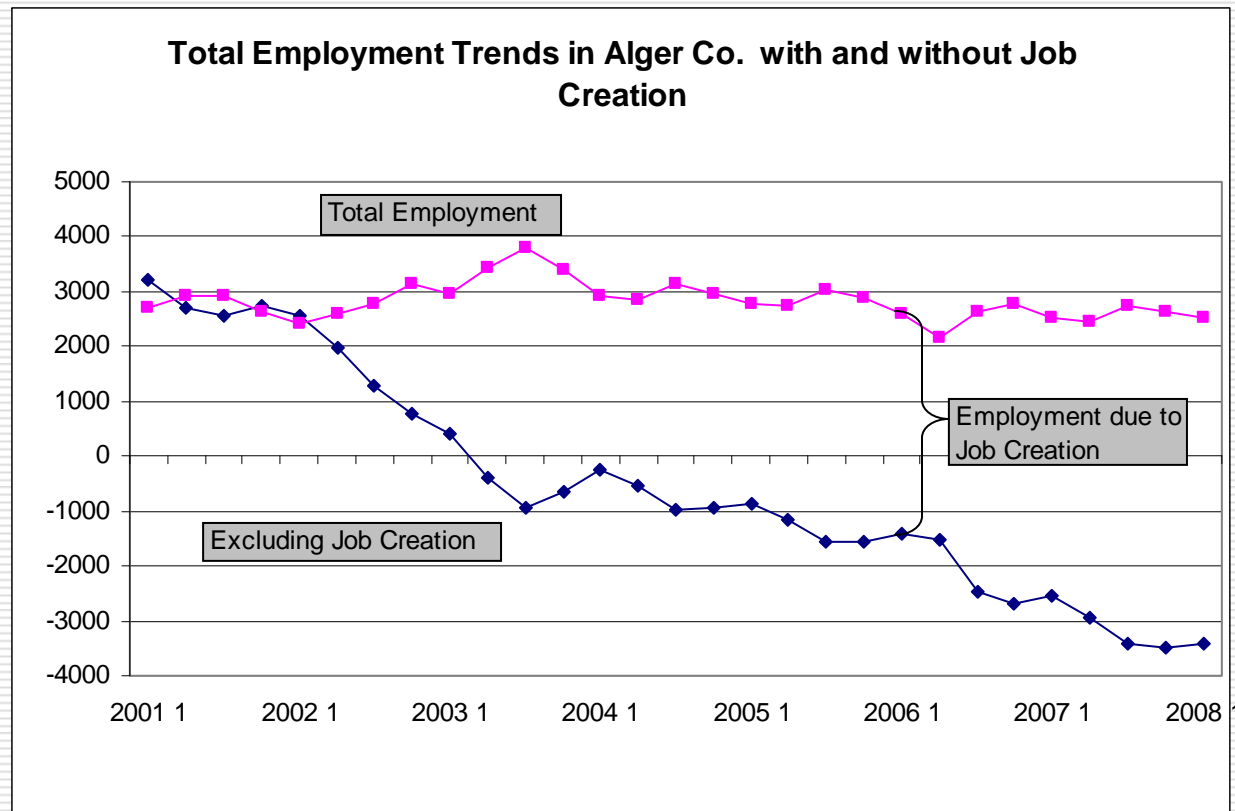
Is there any evidence for any of this?

- The strongest evidence has been hidden in the net employment statistics: *Job creation*.
- Jobs are creations due to
 - Business Churn – new stores replacing tired outlets.
 - Attraction/recruiting
 - Expansions
 - Start-ups of new “export” firms

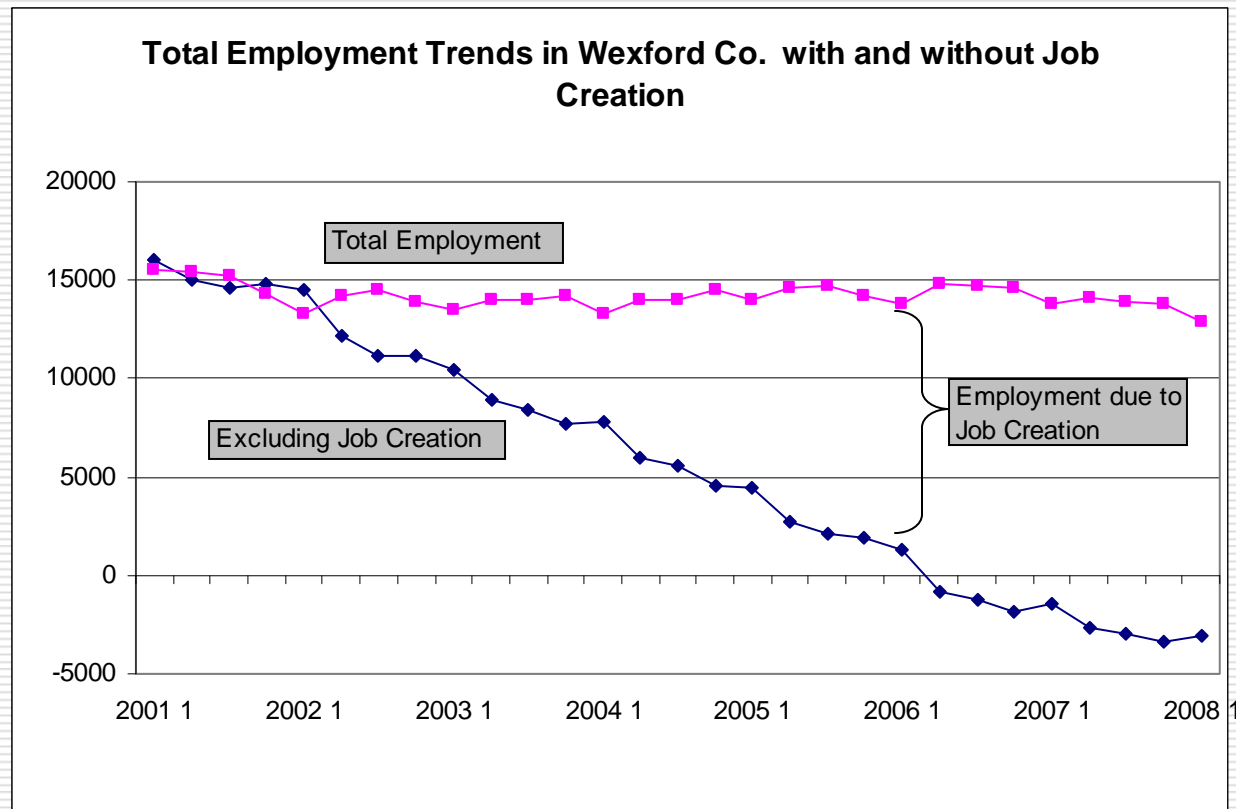
What is the evidence of job creation in the state?



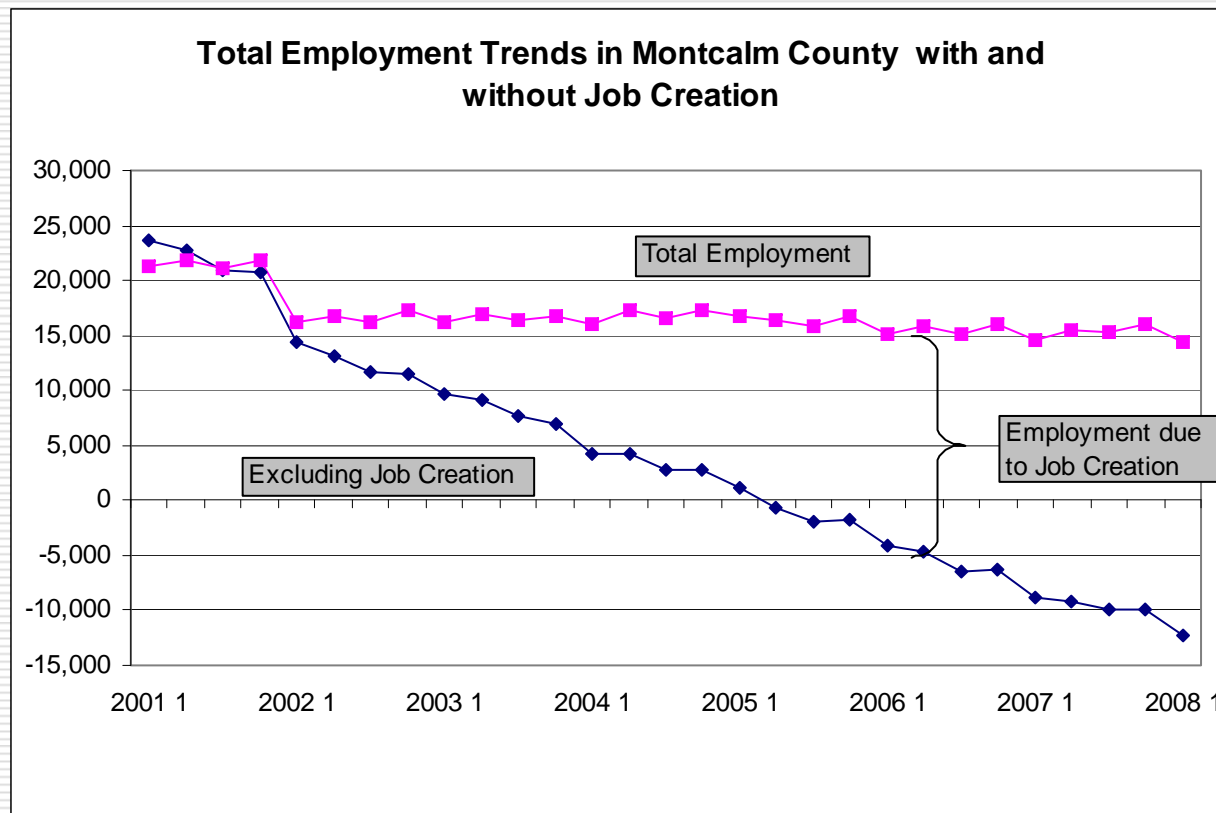
What is the evidence of job creation in rural areas? *Take Alger County*



What is the evidence of job creation in rural areas? *Wexford County*



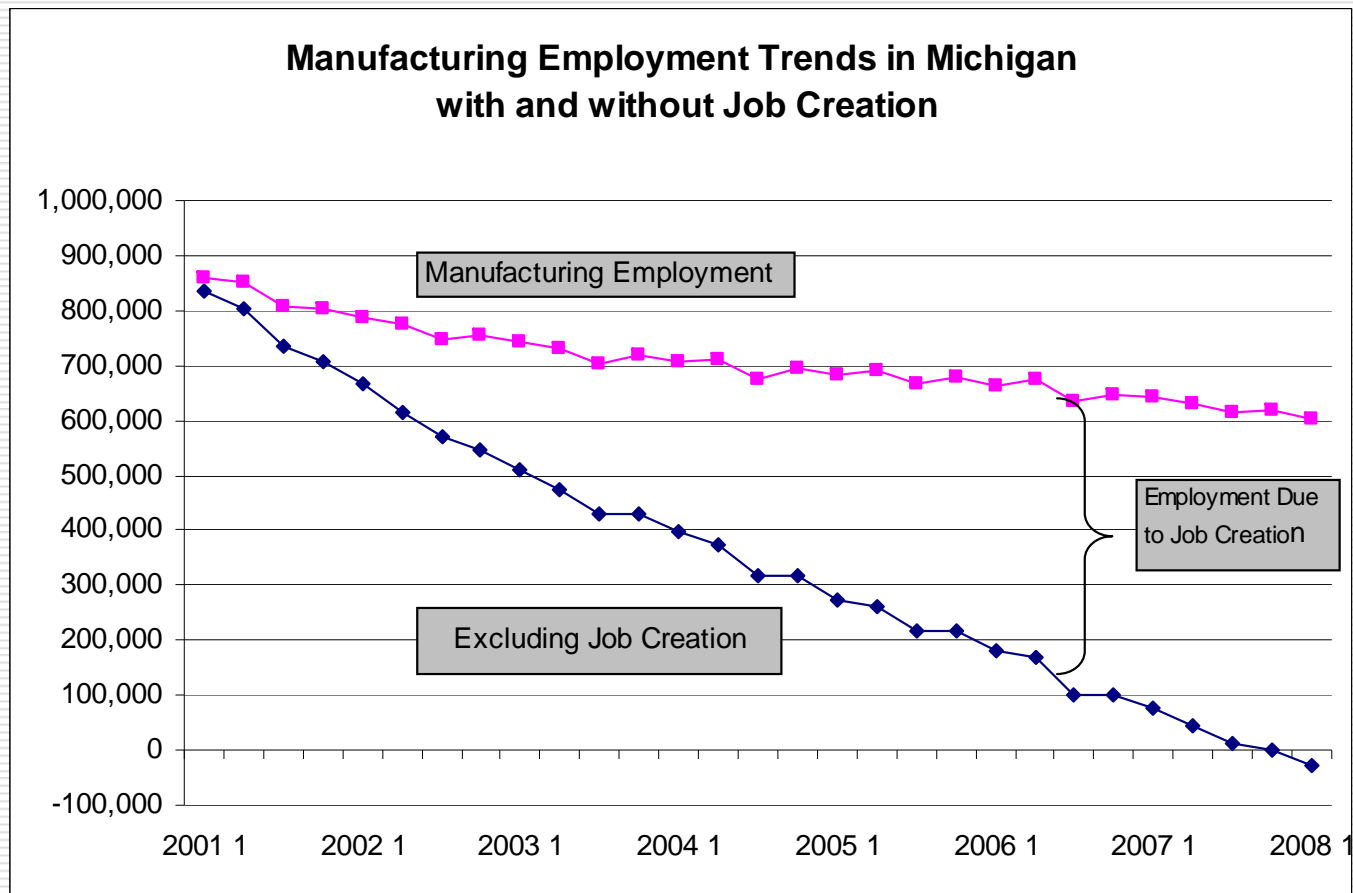
What is the evidence of job creation in rural areas? *In hard-hit Montcalm County*



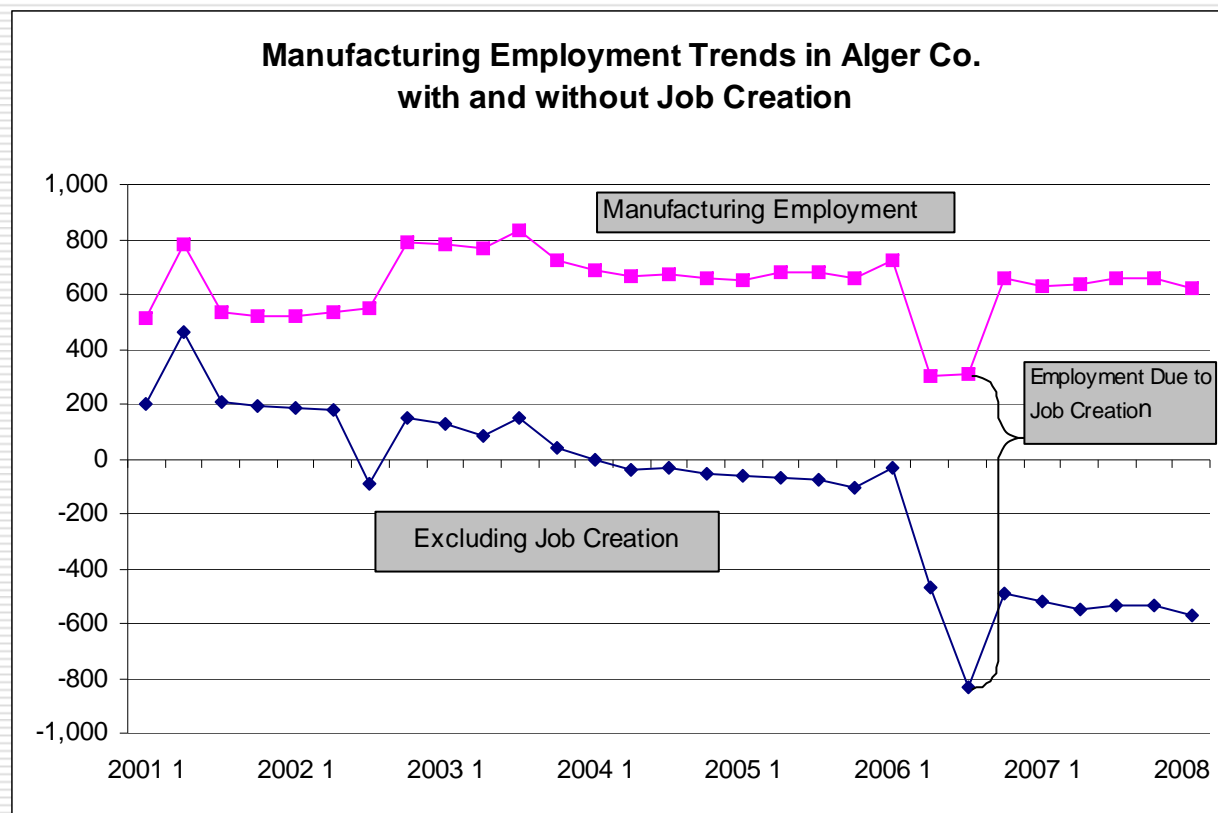
However

- Many of these jobs are created due to employment churn in seasonal activities and consumer services.
- What about export focused activities, such as manufacturing?
 - The news is pretty good.

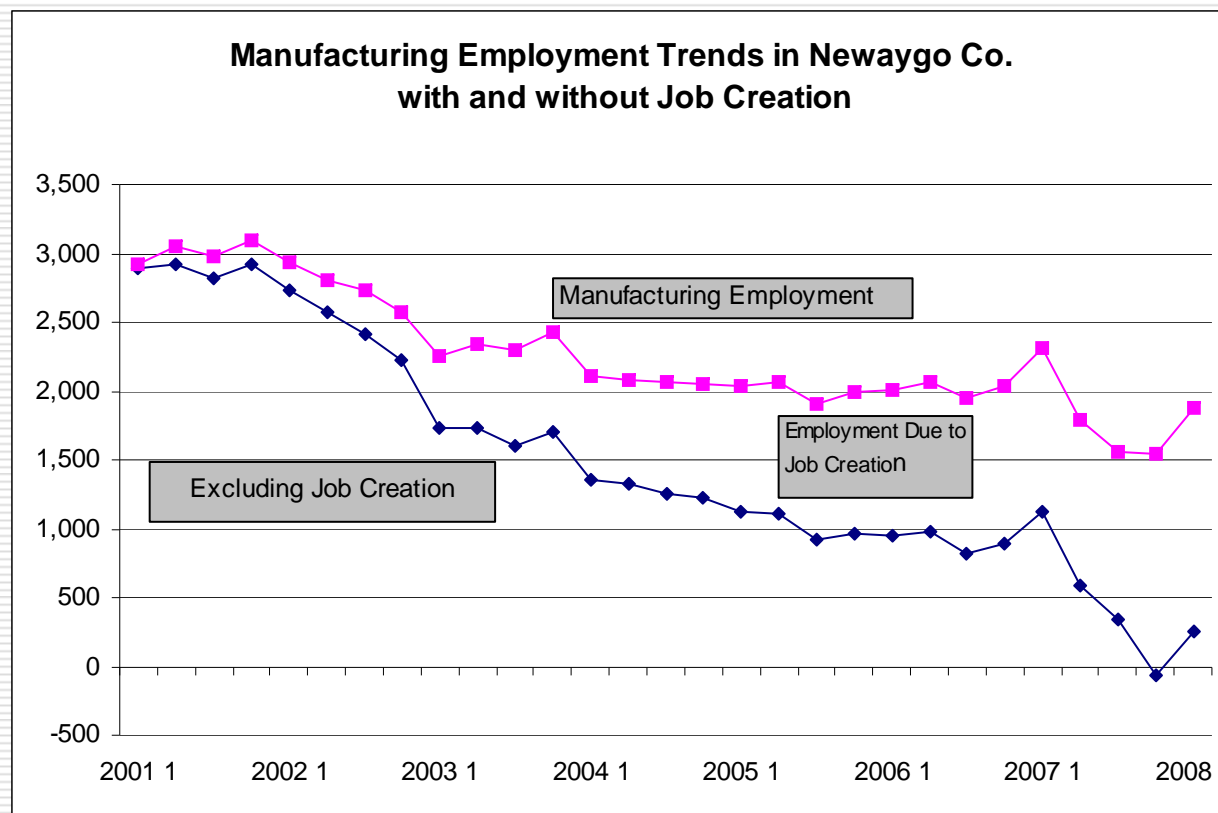
Even statewide, job creation in manufacturing makes a big difference.



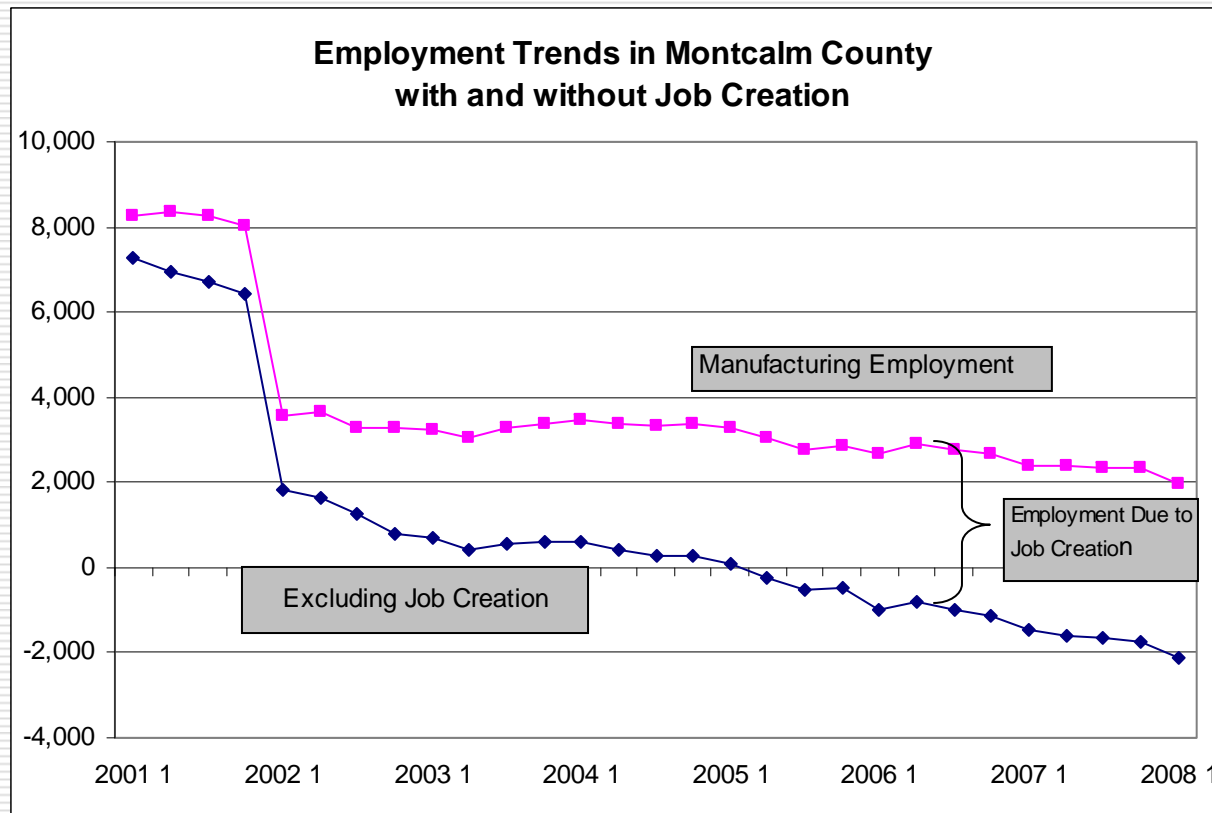
Alger County is one of the more active job creation rural areas.



Being in a MSA does not assure strong job creation.



Job creation is supporting hard-hit Montcalm County.



What are the challenges facing rural areas?

- ❑ Commodity manufacturing continues to be moved offshore.
- ❑ Talent is attracted to large urban areas due to thick labor markets meeting the needs of two-professional households.
- ❑ University-based research is out-of-reach for most rural areas.
- ❑ A quality of life that is not attractive to everyone.

What does Isserman tell us?

- ❑ The likelihood of a rural county being prosperous increases with the integration of rural counties into metropolitan areas.
- ❑ However, for non-core counties, empirical findings suggest geography and location have relatively little correlation with prosperity of non-core counties.
- ❑ Some evidence to suggest that prosperous counties depend less on neighboring counties for jobs or workers.
- ❑ Prosperous counties are not distinguished from other counties by their highway access.
- ❑ The often recommended rural development strategy of attracting recreation visitors and retirees has not yet resulted in prosperous counties.

What does Isserman tell us? (cont'd)

- ❑ The prosperous counties have a more vigorous private sector.
- ❑ The prosperous counties have less income inequality than the other county groups.
- ❑ In short, data suggest that prosperous rural, non-core counties have a robust mix of private sector industries, educated populations, strong social capital, stable population sizes, and relatively homogenous populations in terms of ethnic ancestry.
- ❑ The report's findings support policies to grow and diversify the local economy, encourage and help students complete school, make available local college options, nurture a middle class, and build on local social capital.

Five types of entrepreneurs

- Aspiring - High risk beginners
 - Survival
 - Lifestyle
- } Modest job growth potential
- Growth Experienced entrepreneurs focused on wealth generation
 - Serial Career idea developers – sell before production

And the growth and serial are the least likely to need help.

Dabson et al. *Mapping Rural Entrepreneurship*, W.K. Kellogg Foundation, 2003.

Entrepreneurship is not limited to start-ups.

- Returning to “growing young again.”
 - Diversification based on assets and regional resources
 - Building on strengths not on trying to resolve weaknesses
 - The growing importance of networks—regional and industrial.
 - Three elements of growth
-

Transformation depends on identifying interaction of three key elements of regional economies:

Global Factors

Demographic change

Environmental

Political/Social

Technological Change

Applications

Feasibility

Survivability

Regional Structure

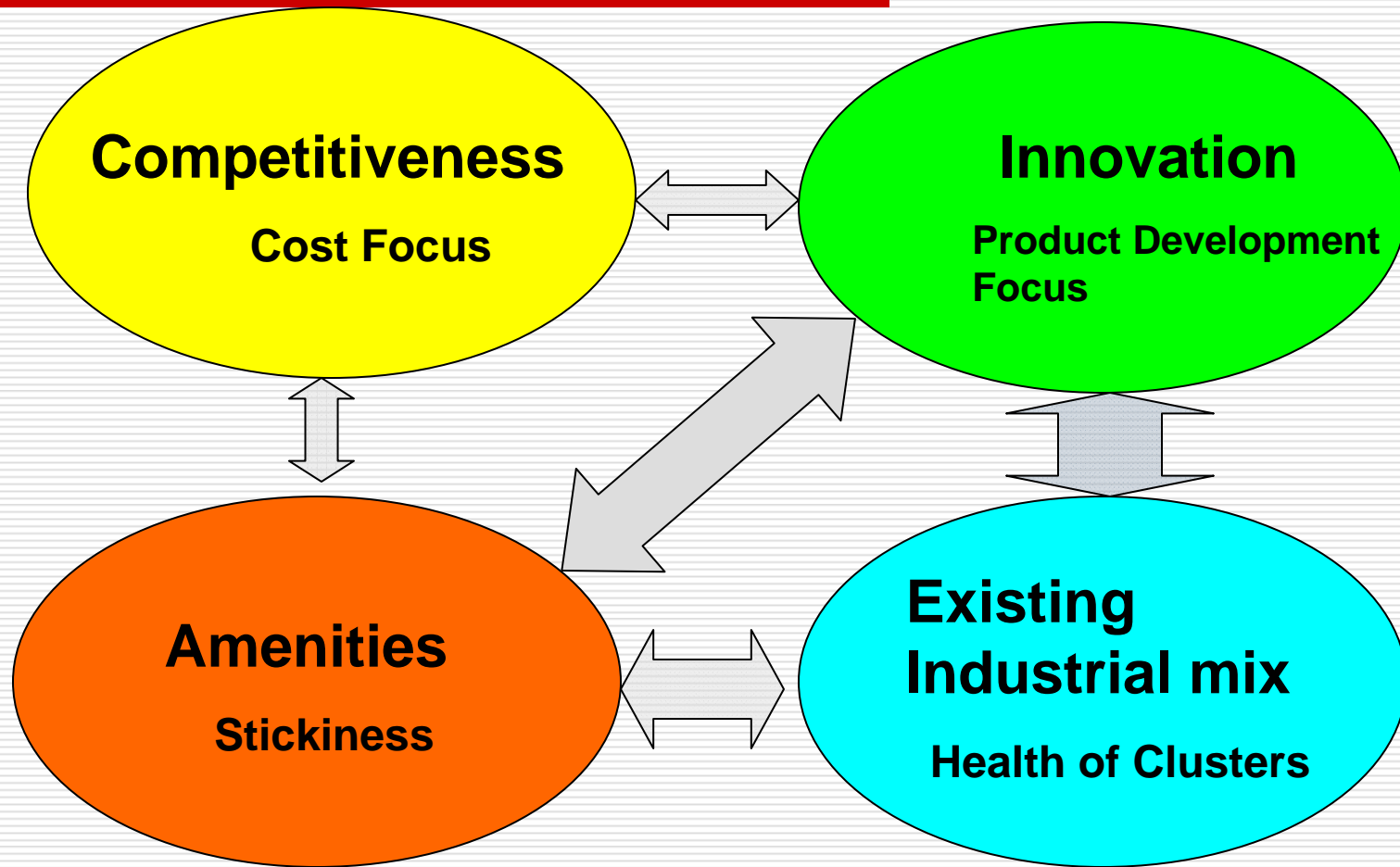
Competitiveness

Innovation

Amenities

Existing industries

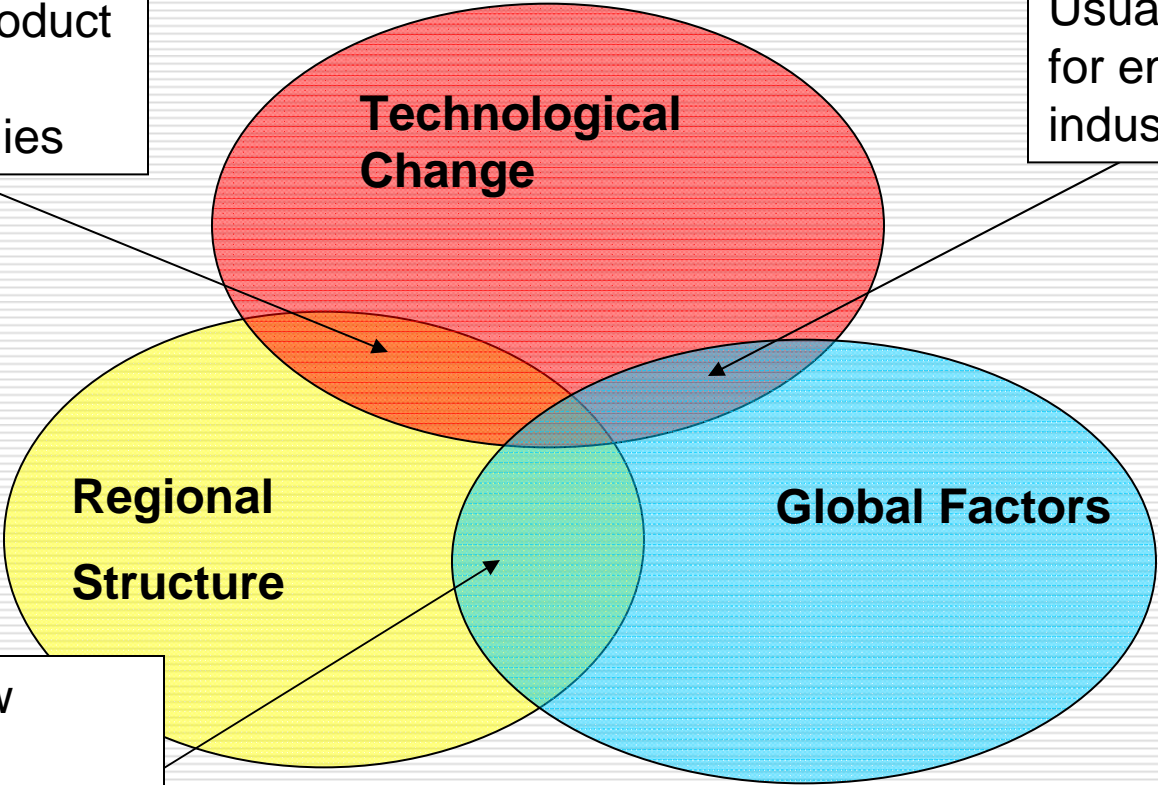
Interaction Between Factors



Emerging Industry Opportunities

Adapt new technology in product development at existing companies

Usual suspects for emerging industry targets



Development of new markets for existing businesses

Closing Thoughts

- Avoid jumping on the bandwagon in trying to attract the next best thing.
 - Competition is fierce—32 states are going after life sciences.
 - If industry clusters matter at all, then it is risky to go after industries that are currently not in the region.
 - Many of the usual suspects are top heavy with highly educated professionals, meaning that “job chains” that reach the underemployed and unemployed will not be created.

Closing Thoughts (cont'd)

- Think about a coaching model of small business development instead of the standard teaching model:
 - Venture Island – Northern California
 - League System Approach – Lichtenstein
 - Entrepreneur Advocacy – Sirolli
- Don't forget the changing needs of your customer—*A focus on design.*
- Don't forget the knowledge of your workers.

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