The Chicago Council on Global Affairs, founded in 1922 as The Chicago Council on Foreign Relations, is a leading independent, nonpartisan organization committed to influencing the discourse on global issues through contributions to opinion and policy formation, leadership dialogue, and public learning.

Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest

By Mark Drabenstott
With contributions from Sean Moore
Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest

By Mark Drabenstott
Director
RUPRI Center for Regional Competitiveness
Chairman
Territorial Development Policy Committee for the Organization for Economic Cooperation and Development

The views expressed are strictly those of the author.

Sean Moore, a research analyst at the Center for Regional Competitiveness, provided invaluable support in preparing this report.
The Chicago Council on Global Affairs is a leading independent, nonpartisan organization committed to influencing the discourse on global issues through contributions to opinion and policy formation, leadership dialogue, and public learning.

The Chicago Council provides members, specialized groups, and the general public with a forum for the consideration of significant international issues and their bearing on American foreign policy.

THE CHICAGO COUNCIL TAKES NO INSTITUTIONAL POSITION ON MATTERS OF PUBLIC POLICY AND OTHER ISSUES ADDRESSED IN THE REPORTS AND PUBLICATIONS IT SPONSORS. ALL STATEMENTS OF FACT AND EXPRESSIONS OF OPINION CONTAINED IN THIS REPORT ARE THE SOLE RESPONSIBILITY OF ITS AUTHORS AND MAY NOT REFLECT THE VIEWS OF THEIR RESPECTIVE ORGANIZATIONS, THE PROJECT FUNDERS, OR THE CHICAGO COUNCIL’S BOARD AND STAFF.

The Chicago Council will sponsor the publication of a Heartland Paper when an issue arises that is critical to the Midwest region and national policy. Authors are expected to “benchmark” their findings against current policy in order to make explicit areas of agreement and disagreement. The authors are solely responsible for the published report. The Chicago Council takes no institutional position.

For further information about The Chicago Council or Heartland Papers, please write to The Chicago Council on Global Affairs, 332 South Michigan Avenue, Suite 1100, Chicago, Illinois, 60604; e-mail info@thechicagocouncil.org; or visit www.thechicagocouncil.org.

Copyright © 2010 by The Chicago Council on Global Affairs.

All rights reserved.

Printed in the United States of America.

This report may not be reproduced in whole or in part, in any form (beyond that copying permitted by sections 107 and 108 of the U.S. Copyright Law and excerpts by reviews for the public press), without written permission from the publisher. For information, write The Chicago Council on Global Affairs, 332 South Michigan Avenue, Suite 1100, Chicago, Illinois, 60604.

About Heartland Papers

Heartland Papers are a monograph series devoted to helping the Midwest succeed in an era of globalization. Published by The Chicago Council on Global Affairs as part of the Global Midwest Initiative, Heartland Papers address issues that are vital to the future of the Midwest as it transitions from its industrial past. The views are those of the author(s), and The Chicago Council takes no institutional position. All statements of facts and opinions are those of the author(s).

In October 2008 The Chicago Council on Global Affairs launched the Global Midwest Initiative, a regional effort to promote interstate dialogue between government, business, and civic leaders about how best to respond to globalization. Through a series of conferences, seminars, and publications, including Heartland Papers and its Web site (globalmidwest.org), the initiative aims to serve as a resource for those interested in the Midwest’s ability to navigate today’s global landscape.
Table of Contents

- Foreword ................................................................. 1
- Executive Summary ................................................... 3
- I. Introduction .......................................................... 6
- II. The New Rural Economic Reality ............................... 11
- III. The New Regional Development Imperative ............... 40
- IV. An Agenda to Transform the Midwest’s Rural Economy ... 66
- About the Authors ..................................................... 81
- References ............................................................... 82
Foreword

The rural Midwest, home to traditional Midwestern values, is in trouble. For years it has relied more on industry than on farming for its livelihood. Now that industry is vanishing. A variety of factors—some short-term, like the recession, others long-term, like globalization—are undermining the rural Midwest economy. Old factory towns are shrinking. Once-humming plants now stand empty. The best-educated young people leave and often don't come back. Those who stay find that the good jobs that supported their parent's generation just aren't there anymore.

This decline has been going on for years. But globalization has put it into high gear. The economy and the legion of Midwestern communities those factories supported are now under enormous threat.

The rural Midwest has a choice between two futures. It can continue to decline, or it can reinvent itself to compete in the global economy, as regions around the world are now doing. The first choice is not acceptable. But the second demands a new path to development and prosperity.

For The Chicago Council on Global Affairs, the relationship of Chicago and the Midwest to the globalizing economy is a key mandate. The place of the rural Midwest in this world is the subject of this report, the second in the Heartland Papers series sponsored by The Chicago Council's Global Midwest Initiative.

Heartland Papers explore how best to position the Midwest in the age of globalization by examining key issues and providing policy recommendations to improve regional success. The focus in these papers is on the region, not a particular state. Many states wrestle with problems in their rural areas, but this Heartland Paper is one of the first attempts to examine this issue from a broader Midwestern perspective and to recommend policies to deal with it.

No one is better qualified to discuss these issues than the author of this paper, Mark Drabenstott. Mark grew up on an Indiana farm, earned his Ph.D. at Iowa State University, and was for many years the director of the Center for the Study of Rural America, at the time the nation's leading center on rural issues. Currently, he is director of the Center for Regional Competitiveness at the Rural Policy Research Institute and chairman of the Organization for Economic Cooperation and Development's Territorial Development Policy Committee, the premier global forum on regional economic development. He has advised and led rural development programs
Past Silos and Smokestacks

Executive Summary

Most people think of the rural Midwest, away from the great cities, as one big farm—solidly bucolic and dependent on agriculture for its living. Yet industry and manufacturing have always been a key part of the rural Midwest economy. In fact, today they dominate that economy. More smokestacks than silos dot the rural landscape. As farms consolidated and the farm population fell, factory jobs—often based on autos, food, and agricultural equipment—picked up the slack. Rural towns and counties depend on manufacturing even more than Midwestern cities, where service industries dominate. Put simply, as goes manufacturing, so goes the rural Midwest.

Today, that industry is going away, and much of the rural Midwest’s economic vitality is going with it. The current recession is only accelerating a decline that has its roots in a rapidly globalizing market for industrial products. Traditional manufacturing jobs are leaving the rural Midwest. And so are many of its best-educated and most talented young people.

The rural Midwest could have an economic future as bright as its vibrant past. But it is basing its twenty-first-century future on a twentieth-century playbook. This is not a recipe for success. Towns and counties compete with neighboring towns and counties for jobs and investments. Industrial recruitment—“smokestack chasing”—is the norm. Economic development agencies spend millions on infrastructure and tax breaks to lure companies from afar instead of creating new jobs at home. Boosters sell the rural Midwest as a cheap place to make things, ignoring the region’s many other economic assets—its natural resources, its hard-working people, its central location, its schools and universities, and its scientific base, among others—that could all be leveraged into a competitive new economy.

The path to stronger economies in the rural Midwest is plain. Partnering regionally to compete globally is what’s needed. This pathway will lead to scores of multicounty, self-defined regions across the Midwest. Only by combining their forces to create new businesses and good jobs at home will the towns and counties of the rural Midwest compete and thrive in a global economy where this sort of collaboration is fast becoming the norm.

The rural Midwest needs a bold new development strategy to transform its economy. The strategy developed in this report stands on four legs:

around the globe, including two from the Midwest that are included in this report: the Southern Minnesota Regional Competitiveness Project and the RiverLands Economic Advantage Project.

The Chicago Council on Global Affairs has devoted significant attention to the Midwest and rural issues. The first Heartland Paper focused on Mexican immigration to the Midwest. Other Chicago Council projects have included the major recent report “Renewing American Leadership in the Fight Against Global Hunger and Poverty” plus reports on energy and federal farm policy, both important issues to the rural Midwest.

The Chicago Council is grateful to the Rural Development agency of the United States Department of Agriculture for its generous support of this paper.

Rachel Bronson, the Council’s vice president for programs and studies, has guided the development of Heartland Papers and the Global Midwest Initiative. Juliana Kerr Viohl, director of Global Chicago/Global Midwest, and Alya Adamany, senior program officer of studies, oversaw the production of this report. Richard Longworth, whose book Caught in the Middle: America’s Heartland in the Age of Globalism led to the founding of the Global Midwest Initiative, also contributed directly to this paper. The Council would also like to thank Catherine Hug, whose editing skills helped shape this paper.
• Help rural communities and counties think regionally to compete globally.

• Focus public investments on transforming economic opportunities rooted in distinct economic strengths, not on smokestack chasing.

• Spur innovation and entrepreneurship, turning ideas and innovations into economic progress.

• Create a world-class entrepreneurial climate and innovation culture to grow a landscape of new companies, in the process recycling the region’s considerable wealth.

This is a brand new game plan—a bold game plan. For more than a half century the rural Midwest has followed one basic path to economic development: Recruit a factory to the edge of town, and give away the farm to get it. In the twelve Midwestern states, something approaching 80 percent of development budgets goes to recruitment incentives. At the federal level, only 4 percent of rural development spending goes to regional development. At the local level, county economic development boards and local chambers of commerce dominate, preserving the lines in the sand that hinder regional action. Universities compete for research funding but devote too little effort to turning good ideas into local jobs. Even farm extension programs too often operate at the county level, not the regional level.

Exceptions exist and should become models. Purdue University’s Center for Regional Development takes a regional approach to Indiana’s economic goals. In northeastern Minnesota, the True North Initiative turned seven county-level community colleges into one regional college, sparking a major new development strategy throughout Minnesota’s Arrowhead region. In southern Minnesota, the Southern Minnesota Regional Competitiveness Project spans thirty-eight counties, among other things uniting three of the region’s major assets—the Mayo Clinic, The Hormel Institute, and the area’s farmers—into a joint bioscience initiative. Nearby, the RiverLands project is working to bring together fourteen counties in northwestern Illinois, eastern Iowa, and southwestern Wisconsin in a new regional effort to transform that region’s economy.

These projects fit the new global paradigm for rural economic development because they go beyond local political boundaries and instead focus on the economic potential of the region to compete globally. The new model for rural development has been usefully summarized by the Organization for Economic Cooperation and Development (OECD). This model emphasizes regional action across traditional political boundaries, targeted investment in public goods such as transportation and telecommunications, active efforts to spur innovation, and a focus on regional competitive advantages. In short, the new paradigm represents the end of a “one-size-fits-all” approach.

The new paradigm is also embodied in the Barca Report, an independent report assessing the European Union’s “cohesion” policy. The report advocates regionalism as the path to economic growth and development, but adds that local leaders are so wedded to their old ways that they often need an external jolt to put their region on the path to growth. In Toronto, the MaRS Discovery District—an innovation center that fosters collaboration among the communities of science, business, and finance to accelerate the growth of successful Canadian enterprises—has provided this jolt in their metropolitan region by connecting the city’s universities with new businesses that can take ideas to markets.

These examples point to what is needed to embark on a new path of Midwestern rural development—a more regional approach. To succeed, regional leaders will need a neutral “safe space” where new partnerships can be forged. They will also need “coaches” that can effectively bring local players out of their traditional silos and combine their strengths on a new economic team. A critical challenge is that both the safe spaces and the coaches are in very short supply.

No one says this will be easy. Regional partnerships are rare in the rural Midwest. There is a potent mix of obstacles: county lines drawn long ago, the persistent devotion to industrial recruitment, and an embedded culture of rivalry often played out on Friday nights on football fields or basketball courts.

To overcome this, many regional champions will be needed. Federal policy can help by providing new incentives to change the legacy of local action. So can state governments, universities, businesses, and nonprofit organizations.

The rural Midwest must move past silos and smokestacks. Globalization has changed the field of play, demanding the region find a new playbook. The current one is simply not working. The future demands new approaches—regional cooperation, innovation, and a leveraging of all strengths into a new rural Midwest economy. In all of these there are national and international models of best practices that the Midwest can draw on and that can, if carefully tailored, be a roadmap back to economic prosperity.
I. Introduction

The rural Midwest, a vibrant part of the American landscape, has always been as much industrial as agricultural. It gave us John Deere's moldboard plow and Cyrus McCormick's reaper, two of many waves of agricultural innovation that created a bounty of food while allowing millions to leave the farm. It gave us Henry Studebaker and other automobile pioneers, anchoring a vast auto industry in the Midwest for more than a century. More recently, manufacturing—especially the many factories descended from those early auto and agricultural inventions—came to support the rural Midwest economy. As farms consolidated and farm employment declined, factory jobs came to dominate the rural Midwest economy.

Even as smokestacks replaced silos as the economic reality of rural life, the region's self-image continued to reflect Grant Wood's American Gothic and Garrison Keillor's Lake Wobegon. This image enshrined a stiff rectitude and rugged independence, an insistence on doing for oneself without reliance on neighbors or government. It implied a stability and steadiness based on an economy that was resilient and as reliable as the changing of the season.

Yet times have changed. The rural Midwest economy is in decline. Old ways no longer suffice in a new era. Stability has given way to economic turmoil, and rugged independence has become a handicap in an economy that punishes isolation and rewards regional cooperation and innovation more than tradition.

In truth, rural Midwesterners remain both resilient and creative. They approach the future with optimism, creativity, and determination. They take economic ups and downs in stride. They stay calm in the face of adversity. They know the value of taking the long view. Above all, they work hard.

These virtues and many others will be critical in the period ahead because the rural Midwest faces its biggest economic test in decades. The global economic downturn has hit hard in the rural Midwest. The auto industry, one cornerstone of the rural economy, is undergoing its biggest restructuring ever. Many plants are shuttered; some will never reopen. Agriculture was in strong shape going into the global recession, but farm incomes are sliding now as food demand slumps around the world. And the pullback in housing and consumer spending is leading to job cuts across the board in literally thousands of factories through the Midwest countryside.

On top of the economic worries, a persistent exodus of youth and talent is a major concern to leaders throughout the rural Midwest. The economic downturn has, if anything, only exacerbated the exodus.

It would be easy to blame the recent downturn in the rural Midwest on those responsible for the subprime meltdown. But the problem goes much deeper. The rural Midwest is still using a twentieth-century playbook to compete in a twenty-first-century economy. For more than half a century, the rural Midwest has followed one basic strategy to develop its economy: Recruit a factory to the edge of town, and give away the farm to get it.

The Midwest was settled by farmers. Ever since the Great Depression, wave upon wave of innovation in agriculture (and the ensuing gains in productivity) allowed more and more of these farmers to pursue work off the farm. For most of the past fifty years, “former farmers” found work on the factory floor.

This strategy worked for a long time. The rural Midwest was a comparatively cheap location. It is centrally located to reach the whole U.S. market. The workforce has a legendary work ethic and excellent skills to apply to industrial tasks. And a generation of development officials honed the craft of cobbled together an enticing array of financial incentives to attract factories—from industrial parks to job training credits to tax increment financing. Communities and counties competed for companies the same way they did on the basketball court on Friday nights. Several communities inevitably lost when the company finally announced the winner. But there was always a new round of bidding over yet another company.

Globalization got in the way of this strategy. The advent of containerization and the spread of instant communication around the world rapidly made the market for manufactured goods truly global. The rural Midwest could no longer compete by simply having lower costs than New York, Los Angeles, or even Chicago. No, with globalization the rural Midwest had to beat out Monterrey, Mexico, and Guangzhou, China. The rural Midwest had always been a low-cost location, but not that low.

The rural Midwest must now move beyond silos and smokestacks. Globalization has fundamentally changed the field of play in economic development over the past two decades. It is not enough to compete on cost. The rural Midwest loses if cost alone is the criterion. Too many places around the world offer even lower costs. It is always possible to try to do old things better. But there is a limit to how far productivity can go. Increasingly, the rural Midwest must compete by doing newer and better things—in a word, innovating.
I. Introduction

The field of play has shifted profoundly, but far too many places in the rural Midwest still cling to the old development playbook. A preponderant majority of leaders at the community, county, and state levels remain deeply wedded to industrial recruitment as their development strategy. Very little empirical research documents the full extent of this development inertia (in part because it is simply accepted as the way things are), but state development budgets lend important insight. A review of 2010 budgets for the twelve Midwestern states reveals that approximately 80 percent of total state spending on economic development is in categories often tied to recruitment incentives. A similar pattern is almost certainly at work at the local level.

The rural Midwest needs a new development strategy to transform its economy. The deep economic downturn makes this urgent; globalization makes it important. The new playbook must take into account the new imperatives of the global economy. It must build on the enduring strengths of the rural Midwest—among them its fertile countryside, its hardworking people, its livable communities, and its central location in the nation. Yet the new playbook must go much further. It must do four things:

• Help rural communities and counties think regionally to compete globally. Critical mass is essential to sustaining a competitive edge in global markets, and many of the best economic opportunities only emerge on a regional scale. “Regional scale” is hard to define, but for much of the rural Midwest, it probably means at least a dozen counties, more in more sparsely settled areas. An even greater challenge than any definition of region will be creating the conditions under which neighboring communities give up decades of competition and instead partner on a new economic future.

• Focus public investments on transforming economic opportunities. Each multicounty region in the rural Midwest has a unique competitive edge in global markets. The key to sustained economic prosperity is to focus scarce public dollars on projects that unlock a region’s unique economic potential while lever-aging returns from private sector investments. Investments in transforming opportunities—those that connect the rural Midwest with big new markets—will be especially prized.

• Spur both innovation and entrepreneurship. Innovation and business starts are the new measures of economic success. The Midwestern countryside is dotted with some of the very best engines of innovation in the nation—a proud legacy of outstanding public universities. These engines are powerful, but not enough of that power is hitting the ground of the rural Midwest economy. Thus, new “transmissions” are needed to translate innovation into economic progress throughout the countryside.

• Change the business culture and recycle wealth. The business climate in the rural Midwest today is tilted toward business recruitment. The business climate of tomorrow must do much more to encourage homegrown companies. Entrepreneurship and risk-taking must, therefore, become embedded not only in public policy, but also in schools and Main Street coffee shops. Capital will be a critical ingredient for these new companies. Fortunately, the rural Midwest has a lot of wealth. However, new mechanisms will be needed to recycle that wealth into new companies.

This report explores the new economic game plan and how the rural Midwest can execute it to win in the global economic race. Midwest is a term with many different meanings. We have adopted a widely accepted definition: the twelve states in the U.S. Census Bureau’s map of the Midwest—Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. This definition has important resonance with the policymakers that can help drive it forward. In particular, it broadly conforms to key governmental organizations such as the Midwest Governors Association and the Midwest Council of Governments. The definition used here also aligns with previous work by The Chicago Council on Global Affairs, and conforms with the geographic frame of reference in Caught in the Middle by Richard C. Longworth.

Chapter II begins by examining the critical economic trends now sweeping the rural Midwest, including a discussion of what “rural Midwest” really means. It shows that the Midwest’s current development strategy is unlikely to answer two critical challenges: sliding per capita incomes and an exodus of youth and talent. It also notes some powerful trends at work in the key industries that now drive the rural economy in the Midwest.

Chapter III explores the economic development imperative for the rural Midwest. The region faces an urgent and important chal-
Past Silos and Smokestacks

The global economic recession staggered the rural Midwest. It has been one of the toughest economic periods in several decades, certainly since the 1973-74 recession, the last downturn to take a huge toll in the region. Despite the recent pain, it is important for the Midwest to take a longer view as it ponders its economic future. In many respects, the most recent downturn merely shines new light on underlying problems of much longer standing. In particular, it shows that the traditional engines for the region’s rural economy by themselves are no longer able to address the concerns uppermost in the minds of mayors, school superintendents, business leaders, and legislators.

II. The New Rural Economic Reality

What is the rural Midwest?

Before sorting out these critical economic trends, it is important to understand exactly what is rural in the Midwest. It’s not a simple answer. While Grant Wood’s image persists, in fact there are few big regions in the United States where rural and urban mix so frequently and in so many different ways as they do in the Midwest.

A good starting point is to look at the rural Midwest through the lens that most often shapes federal policy toward the region. The Office of Management and Budget divides counties into three important categories: metropolitan (urban cluster with a population greater than 50,000), micropolitan (urban cluster with a population between 10,000 and 49,999), and nonmetropolitan (no town greater than 10,000 in population).¹ These designations matter because they have a big impact on federal spending formulas for everything from Community Development Block Grants to Medicare reimbursement. As shown in Figure 1, a large swath of the eastern Midwest is a dense mix of metropolitan and micropolitan areas. Further west, the prairie opens up to a much broader sweep of countryside dotted by smaller cities and towns.

A more detailed picture emerges when one notes the proximity of both micropolitan and nonmetropolitan counties to major metropolitan areas. A small city of 40,000 people that is right next to Chicago has quite a different economic geography than one in southern Illinois surrounded by cornfields. This way of defining rural recognizes the big effect urban areas can have on the working

¹ For a discussion of these definitions, see http://www.census.gov/population/www/metroareas/metroarea.html.
II. The New Rural Economic Reality

and shopping patterns of rural citizens, thus blurring the distinctions between “rural” and “urban.” Figure 2 captures these differences by measuring urban influence, a methodology developed by the U.S. Department of Agriculture (USDA). A striking feature of this map is that much of the eastern portion of the Midwest looks even more “urban” and less “rural.” Illinois, Indiana, Michigan (the upper peninsula excepted) look heavily urban, as do large portions of Minnesota, Missouri, and Wisconsin.

Yet this picture of urban influence can also be misinterpreted. We know, for instance, that agriculture still plays a large role, as a lot of agricultural products are grown in all of these states. What this map says, most of all, is that many rural areas in the Midwest lie cheek by jowl with big metropolitan areas. That is, rural people are but a short distance from their city cousins.

A more textured picture of the rural Midwest emerges if one takes into account both proximity to urban areas and the size of the cities and towns involved. The rural-urban continuum developed by USDA tries to depict the rural economic geography in this way. Figure 3 maps the continuum for the Midwest. This provides perhaps the clearest outline of the region’s great metropolitan areas. There are essentially eight of them: the Detroit/Cleveland corridor surrounding Lake Erie, the Chicago/Milwaukee corridor surrounding Lake Michigan, Columbus, Cincinnati, Indianapolis, Minneapolis/St. Paul, St. Louis, and Kansas City. Smaller cities like Omaha and Des Moines dot the landscape in between. Yet the powerful conclusion from this map is that a lot of countryside fills in most of the Midwest. To be sure, it ranges from significant constellations of micropolitan areas to wide open agricultural fields. Yet no matter how it is defined, “rural” is a powerful part of the Midwest’s economic geography.

Finally, one of the most compelling ways to view the rural Midwest is to examine its economic drivers. That is, which industries

---

2. For a discussion of this methodology, see http://www.ers.usda.gov/Briefing/Rurality/RuralUrbCon/.
II. The New Rural Economic Reality

power the economy of the rural Midwest? Figure 4 shows all counties in the Midwest, noting the sector that represents the leading source of income—the sector on which the county’s economy most depends.3 There are three zones to the Midwest rural economy. The eastern zone (Indiana, Michigan, Ohio, and much of Wisconsin) is heavily industrial, with manufacturing dominating the landscape. This influence spills west, well into areas commonly thought to be uniformly agricultural. The middle zone (much of Illinois, Iowa, Minnesota, and Missouri) has a very mixed economy, which shows up here as “nonspecialized.” This mix includes doses of manufacturing, retail, agriculture, tourism, and government, depending on where you are. In the western zone (Kansas, Nebraska, North Dakota, and South Dakota), agriculture still plays a dominant role.

Removing the metropolitan counties makes these three economic zones even more pronounced. In particular, there are very few rural counties that count the service sector as the strongest driver of their local economy—the metro areas have a much tighter grip on service jobs.

Any way you look at it, manufacturing is a dominant theme in the rural Midwest—past, present, and future. Very few other parts of the nation have the foothold in industrial production that the Midwest has. As shown in Figure 5, the Midwest has five of the top eight states in the nation in terms of factory concentration (Indiana, Iowa, Michigan, Ohio, and Wisconsin).4 The only other region that comes close is the South (with relatively high concentrations in Alabama, Arkansas, and Mississippi).

Yet farming remains strong in much of the Midwest. If the Midwest has five of the top eight industrial states, it also has five of

---

3. These “dependency” codes were developed by the U.S. Department of Agriculture. For more information see http://www.ers.usda.gov/Briefing/Rurality/Typology.

4. The measure is a location quotient. In this case, we have calculated the share of manufacturing in total employment and then compared that share to the national average. States with a ratio above 1 have an above-average concentration of factories, while those under 1 have a below-average concentration. Indiana and Wisconsin have the highest ratios in the nation.
II. The New Rural Economic Reality

The rural Midwest was hit hard by the recent global recession, though the local impact varied across the region, depending on the local economic base. Longer-term trends are even more telling. Rural areas in the Midwest are growing more slowly than the metro hubs of the region. What is more, an exodus of talent raises serious questions about the ability of the rural Midwest to make up ground lost in the global economic race over the past few decades. In short, the recent downturn provides a useful prism for examining some well-entrenched trends that represent significant headwinds going forward.

The recent recession was especially harsh on rural manufacturing areas in the Midwest. Overall, the rural Midwest has lost more than 375,000 jobs (through October 2009) since the recession began in November 2007 (Table 1). About three-fifths of those jobs were lost in manufacturing-dependent rural areas. Areas like northern Indiana, southern Michigan, and northern Ohio, where the auto industry has deep roots, all took heavy blows. Together, the factory-rich areas lost 6.2 percent of their job rolls during the recession, the worst performance since the 1973-74 recession.

<table>
<thead>
<tr>
<th>Table 1 - Performance of the Rural Midwest Economy during the Current Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Jobs in November 2007</strong></td>
</tr>
<tr>
<td><strong>Number of Jobs in October 2009</strong></td>
</tr>
<tr>
<td><strong>Net Decline in Jobs</strong></td>
</tr>
<tr>
<td><strong>% Decline</strong></td>
</tr>
<tr>
<td><strong>Share of Midwest Rural Decline</strong></td>
</tr>
</tbody>
</table>

The recession was much milder in the central and western zones of the rural Midwest. Agriculture was in strong shape when the recession began. Indeed, many farm commodities enjoyed record prices in the first half of 2008 (lifting farm income to an all-time high), even as the housing bust and cutbacks in consumer spending were taking their toll elsewhere. Thus far, the recession has really been a tale of two rural Midwaters. Farming areas have significantly outperformed the national economy, though the recent plunge in farm income suggests agricultural areas are likely to weaken. Meanwhile, factory areas have underperformed the national economy by a wide margin. The central zone is a blend of these two broad patterns (Figure 7).

It is worth noting that Midwestern cities have been stung even harder by the recession. Indeed, metro areas like Detroit and Cleveland have been among the hardest hit in the nation. Urban core areas in the Midwest have seen employment decline by nearly 7 percent so far, while jobs have edged down narrowly in more remote areas, reflecting the more stable farm economy (Figure 8).

The performance during the recession of Midwest counties, arrayed by their economic base, provides perhaps the best overall
II. The New Rural Economic Reality

A final way of looking at the impact of the recession on the rural Midwest is to contrast where the impact has been especially deep and where it has been barely noticed. One quick way of seeing this contrast is to plot the twenty rural counties in the Midwest where the job gains and job losses have been biggest in percentage terms. The resulting map shows that the top ten gainers have all been in areas where agriculture, tourism, or energy production are major economic engines (Figure 10). For instance, the top two percentage gainers (Mackinac County, Michigan, and Custer County, South Dakota) are both national tourist destinations (Mackinac Island and the Black Hills, respectively). These two counties have seen their job rolls grow by nearly one-third, even as the rest of the nation has been in recession. By contrast, the biggest job losers generally are located in areas where old-line manufacturers are struggling or where industries have simply walked away from a rural location. For instance, the two rural counties with the biggest percentage drops in jobs—Clinton County in Ohio and Fayette County in Indiana—suffered

---

5. This net increase includes some metro counties in the Midwest that are identified as “farm-dependent.” Put another way, the gains in these agriculturally tied metro areas have been even stronger than in remote rural areas. This suggests that farm equipment, food processing, and other activities have been comparatively strong during the downturn.

The rural Midwest is losing even more ground in terms of income.

Source: Bureau of Economic Analysis, REIS tables.

The rural Midwest is losing even more ground in terms of income.

Source: Bureau of Economic Analysis, REIS tables.

One of the best ways to gauge a region’s economic standing is to look at how well it is running in the global economic race. There are no perfect indicators, but three snapshots are very helpful. The first is whether the rural Midwest is getting a bigger or smaller share of the nation’s total job rolls. While some rural pockets are gaining, overall the region’s rural counties are clearly falling behind (Figure 11). This is true whether you look at areas dominated by manufacturing (Indiana, southern Michigan, and Ohio) or areas dominated by agriculture (downstate Illinois, Iowa, and Kansas through the Dakotas). The exceptions are areas where beautiful scenery fuels new development such as the Ozarks portion of Missouri or parts of Minnesota, Wisconsin, and Michigan. In addition, the exurbs of growth centers like Chicago, Indianapolis, and Columbus have clearly gained ground.

What are the longer-term challenges?

These short-term losses have created a sense of urgency when thinking about the future. But long-term performance is probably more telling, especially in guiding a new development strategy. When looking back over the past twenty-five years, serious problems can be seen that the current downturn highlights but does not fully describe. Simply put, much of the rural Midwest is falling further behind in many measures of economic competitiveness. Moreover, its longstanding reliance on industrial development has put the region at risk of losing even more ground, especially with the automobile industry now on its knees. Finally, a persistent brain drain is likely to get worse before it gets any better.

Figure 12 - Change in Share of U.S. Income (1982 to 2007)

The rural Midwest is losing even more ground in terms of income.

Source: Bureau of Economic Analysis, REIS tables.

Figure 13 - Change in Share of U.S. Population (1982 to 2007)

Population losses have persisted.

Source: Bureau of Economic Analysis, REIS tables.
paying jobs while missing out on higher paying ones. One explanation is that rural areas have mostly missed out on the explosion in many service industries over the past quarter century while remaining heavily tied to factories. Much of the service boom has happened in areas such as those along the Interstate 494 beltway in the Twin Cities or along similar rings in Indianapolis, Kansas City, and Des Moines.

Finally, the rural Midwest appears to be losing the people who will drive its future. The region’s rural areas are experiencing an exodus pretty much across the board (Figure 13). The only exceptions appear to be exurban counties that are becoming part of major cities (rings around the Twin Cities, Indianapolis, and Chicago are especially striking) or areas with exceptional scenic amenities such as the Black Hills of South Dakota and the lakes region of central and northern Minnesota.

The more critical question, of course, is which people are leaving. While the answer to that question is not altogether clear, Census Bureau data on educational attainment suggest that rural areas in the Midwest still struggle to keep the best talent, though they have shared in some general improvement. People in rural areas of the Midwest are more likely not to have finished high school, not to have college training or degrees, and not to hold advanced degrees. For instance, in 2000, 19 percent of people in the rural Midwest did not have a high school diploma, compared with only 16 percent of people in Midwest cities (Table 2). Even more telling, only 15 percent of rural Midwesterners held a bachelor’s degree, compared with one-quarter of those living in Midwest metro areas.

There was a slight improvement in rural skills between 1990 and 2000. For example, the percentage of rural people with bachelor’s degrees rose from 12 percent to 15 percent over the decade. The gains do not suggest, however, that the rural towns and farms of the Midwest are actually luring city talent to the countryside. Rather, they reflect a general improvement across the entire Midwest. In the same period, Midwest metro areas raised the percentage of their populations with bachelor’s degrees from 20 percent to 25 percent, an even bigger increase than in rural areas. The two trends may indicate that state policies to boost educational attainment are having some success—in cities and in the countryside.

If the rural Midwest is in a global economic race, it is also losing to the region’s cities. By any measure, cities are getting a bigger slice of the Midwest economic pie. Metro areas now hold just under 77 percent of the region’s total population, an increase of 2.3 percentage points in the past quarter century (Figure 14). Metro areas have an even bigger share of jobs—and this share has risen over the past twenty-five years, though not quite as much as population (Figure 15). The biggest change has been in income, where metro areas now claim more than 81 percent of the region’s income, a gain of nearly 3 percentage points over the past quarter century (Figure 16).

This trio of charts shows that the rural Midwest economy is still living on its engines of the past (agriculture and manufacturing). Both remain strong, but both are unable to keep Midwest farms and towns competitive in the global economic race. Even in the Midwest itself, the gap is widening between places like Kokomo and Indianapolis in Indiana, Quincy and Chicago in Illinois, Fort Dodge and Des Moines in Iowa.
II. The New Rural Economic Reality

How are the region’s industries changing?

There are powerful legacies in the rural Midwest economy. Agriculture and manufacturing remain dominant sectors, but both are undergoing profound changes wrought by globalizing markets and significant technological change. Because they represent the two legs of the rural Midwest economy, each merits a closer look.

A consolidating countryside

Midwest agriculture is legendary—a production powerhouse that defines the Corn Belt and a huge slice of the nation’s livestock production. In addition, related industries supplying inputs and processing the bounty of production have resulted in a highly integrated and sophisticated food and agriculture system. With a significant amount of the related manufacturing located in metro areas, food and agriculture also create a strong linkage between rural and urban places across the Midwest. For instance, the Quad Cities and Dubuque form a powerful farm equipment corridor along the Mississippi River. And while the meat processing industry long ago left cities like Chicago to be closer to where the animals are
produced, huge food companies remain headquartered in Chicago, Minneapolis, and other major Midwest cities.

In many respects, Midwest agriculture supplies the fabric that connects the small, medium, and large cities of the Midwest. Nevertheless, the landscape has changed dramatically over the course of the last several decades. The number of farms has dropped, and average farm size has steadily climbed. This is mostly the result of the incessant march of technology, which makes it possible for one farmer to produce more and more every year. But it also reflects the steady exodus of the farmer’s sons and daughters to the higher paying jobs found in places like Columbus, Indianapolis, Omaha, and beyond.

Two sets of data confirm this story line. USDA statistics show that farm numbers are dropping, and farm size is increasing. Over the past two decades, the total number of farms has dropped about 6.5 percent, while the average size has grown about 4.5 percent in terms of acres.7 But the real change has been a huge 235 percent jump in average sales per farm. Farmers in the Midwest have become highly productive, using far less manpower than they did in the past.

This surging productivity powers the trend toward ever-bigger farms. Nowhere is the increase in output more evident than in corn, king of crops in the Midwest. Yields have climbed steadily higher, as ever-better hybrids have conquered the nettlesome corn production challenges of earlier decades—weeds, corn borer, rootworms, and even drought. Today, average corn yields are more than 160 bushels per acre, a stunning 60 percent gain over the past three decades (Figure 17). Corn production has surged even though planted acreage has been steady overall. The huge gains in productivity have led to ever-bigger corn farms. Many Midwest corn producers now average more than 1,000 acres, and some top 10,000 acres (more than fifteen square miles). Corn farms that grow more than 500 acres of corn (which means they likely top 1,000 acres in their total operation) now represent just 12 percent of all farms growing corn, but account for more than half of all corn produced (Figure 18).

Even as corn production has expanded, new markets for it have opened up. Historically, Midwest farmers fed most of their corn to livestock, mainly cattle and pigs. Indeed, the cheap feed was a major factor in the development of the Midwest’s dominant meatpacking industry a century ago. Over time, though, new markets have overtaken feed—namely, exports, corn sweetener, and ethanol. Today, less than half the corn crop is fed to livestock, and more than one-third goes to ethanol.

---

In some parts of the Midwest a new form of agriculture is emerging that runs counter to these trends. Specialized, locally grown foods are a growing new market that allows small to mid-size producers to sidestep the relentless cost pressures of traditional bulk commodities. These farms are discovering local and regional markets for products like grass-fed beef, locally grown produce, free-range chicken and pork, and wine.8 This potpourri of new products is emerging in mostly an ad hoc fashion, with farmers markets, the Internet, and the occasional partnership with local groceries serving as the pathway to profits. Despite the jumbled structure of this marketplace, however, a strong consumer appetite for nutrition and freshness seems likely to sustain the trend. In the process, it adds a wild card to agriculture’s future place in the Midwest.

The changing face of factories in the Midwest

Factories are the very heart of the Midwest rural economy. Indeed, many small and mid-sized farms have survived only because their owners earn much of their income in nearby factories. Over time, in fact, Midwest rural communities have become much more dependent on manufacturing to drive their economies than on farming. Thirty years ago, manufacturing already dominated the rural economy of the three eastern Midwest states of Indiana, Michigan, and Ohio (Figure 19).9 Much of this activity was driven by the auto industry. By the new millennium, factories had mushroomed across the central portion of the Midwest (Illinois, Minnesota, Missouri, and Wisconsin). Even in a state like Iowa, long considered the heart of the Corn Belt, there are now far more counties that depend on manufacturing than on farming alone (consider again Figure 4).

But if manufacturing powers the rural Midwest economy, the factories themselves are getting older and represent industries that face enormous competitive pressures in global markets. A detailed comparison of the Midwest’s and the nation’s manufacturing sectors shows the industries that drive much of the rural Midwest (Figure 20).

8. A good example of this innovation in “product agriculture” is Shatto Milk Company (shattomilk.com). This farm created farm-scale processing to take its organic, hormone-free milk to a regional market in Kansas City.

9. For more than thirty years, the U.S. Department of Agriculture has analyzed county-level income patterns to determine which sector is the leading source of income in a given rural county. Manufacturing-dependent counties are now defined as those in which factories provide 25 percent or more of average annual labor and proprietors’ earnings. For more information, see http://www.ers.usda.gov/Briefing/Rurality/Typology/.
“Drive,” it turns out, is the right word. Transportation equipment is the biggest slice of Midwest factory employment—more than 15 percent. While some of these plants are located in metro areas like Detroit and Chicago, a huge number are still scattered across the countryside in places like Kokomo, Indiana, and Marysville, Ohio. Transportation equipment, including autos, accounts for about 50 percent more jobs in the Midwest than in the nation. But many of the Midwest’s auto plants are either idled now or throttled back significantly. This poses life-or-death questions for literally scores of communities across the rural Midwest.

Fabricated metals, including steel production, is another legacy industry that remains critical in the Rust Belt. As with autos, this industry started out in the Midwest as an overwhelmingly urban industry, but has migrated to many rural locations over the years. U.S. Steel called Gary, Indiana, home, but NuCor, its nimble competitor, is located in Crawfordsville, Indiana, in the middle of the cornfields. Fabricated metals accounts for a slice of factory jobs that is about one-quarter bigger than in the rest of the nation. The new plants in rural areas may have an edge in what promises to be a highly competitive market going forward.

Machinery is the third-largest industry, also with deep roots in the Midwest. These factories produce everything from the machinery that makes the auto industry hum to heavy equipment used throughout the world such as Caterpillar trucks and bulldozers. It also includes farm equipment, an industry that is highly concentrated in places like the Quad Cities; Peoria, Illinois; and Waterloo, Iowa. In all, the Midwest share of factory employment devoted to such machines is about one-third bigger than for the nation. These industries remain highly cyclical, depending on the performance of the sectors they serve. Farm equipment boomed in 2008 when farm income was setting records, but is slumping now. Similarly, backhoe production by Deere and Caterpillar boomed in the middle of the decade when the nation’s construction industry was in overdrive, but has tumbled during the housing bust.

Finally, food processing is an unsurprising and notable anchor of the Midwest manufacturing sector. This industry grew up next to the abundant crops and livestock produced here. The industry has been quite stable, though many development officials complain that comparatively low wages often fail to lift per capita incomes in rural areas. The food processing share of factory jobs in the Midwest is similar to that in the nation.

How is the changing economy reshaping the future for rural areas?

Globalization has brought sweeping changes to agriculture, manufacturing, and other industries in the Midwest. Since the rural Midwest is far from uniform, these changes play out differently in different parts of the Midwest. In fact, the Midwestern countryside
is much like a quilt, with each square feeling different impacts from changing economic trends.

A quick look at some of these impacts is important to understanding what is happening to the rural Midwest. But it is even more important to laying a foundation for a stronger economic future. While it is beyond the scope of this paper to detail all the local regions that make up the rural Midwest, snapshots of two particular areas provide a valuable start in illustrating some key trends that must be taken into account for any new development strategy to take root.

**Southern Minnesota**

A major economic development initiative recently led to the creation of a new partnership spanning thirty-eight counties in southern Minnesota (Figure 21). The Southern Minnesota Regional Competitiveness Project is a powerful window into the future of rural development in both the Midwest and the nation.\(^\text{10}\) It also gives us a useful glimpse of the economic realities that provide the essential framework for new development strategies.

Southern Minnesota has a comparatively strong economy, with incomes and employment levels that would be the envy of many other parts of the Midwest or nation. The region's farmers are among the most productive in the nation, if not the world. Fully one-fifth of the region's workers still start their day in a factory. And southern Minnesota boasts one of the best-known medical centers in the world—the Mayo Clinic. Together, these three industries represent a sort of “three-legged stool” for the region's economy, with more than 120,000 “surplus jobs,” or more jobs in these three key industries than one would expect if the region's economy was representative of the nation as a whole.\(^\text{11}\)

Southern Minnesota has a lot going for it. Yet the stresses of globalization reach this part of the Midwest, too. Agriculture must exert every ounce of new productivity to stay competitive. And factories must constantly slash unit costs through innovation to earn\(^\text{10}\) A series of publications describing the Southern Minnesota Regional Competitiveness Project can be found at [http://www.mnsu.edu/ruralmn/regcomp.html](http://www.mnsu.edu/ruralmn/regcomp.html).

\(^\text{11}\) “Surplus jobs” is a way of measuring an area's economic specialization. It compares the number of jobs in every industry with the number that would be predicted if the structure of the area's economy mirrored the nation's. In the case of southern Minnesota, for instance, there are nearly 38,000 more farmers than in a typical region with this population. Similarly, the region has more than 42,000 more factory jobs and almost 40,000 more health-care workers. By contrast, the service sector is significantly underrepresented.
domestic or export sales. While health care provides a certain stability, many jobs in the sector pay surprisingly low wages.

In the end, southern Minnesota is battling two powerful trends found in many other parts of the rural Midwest. First, the region’s per-capita incomes are sliding relative to the rest of the state and the nation (Figure 22). Simply put, the existing industries are maintaining jobs, but at lower wages than in the Twin Cities. Second, it appears that the southern Minnesota economy lags in its capacity to innovate. The region has always put a high value on education and enjoys human capital that is stronger than in the rest of the nation (Figure 23). However, that knowledge does not readily translate into strong innovation and productivity such as patents (Figure 24). This lack of innovation persists in spite of a bevy of colleges and universities sprinkled throughout the region as well as high-powered research institutions like the Mayo Clinic, The Hormel Institute, and the University of Minnesota-Rochester.
Another newly forming rural region in the Midwest is RiverLands, a fourteen-county development initiative spanning northwestern Illinois, eastern Iowa, and southwestern Wisconsin. Like southern Minnesota, this area suffers from eroding incomes that now stand nearly 20 percent below the average for the three states as whole. Its economy is dominated by its legacy industries—manufacturing and agriculture (Figure 25). It has been an agricultural center since the Civil War, and the agricultural equipment industry has been strong there for a century. It has also gained a foothold in retailing, driven by national retailers such as Land’s End and Swiss Colony. Overall, however, the region still relies heavily on its factories, and the globalizing economy is putting those firms to a stiff test.

Demographic trends pose another significant challenge for RiverLands. These demographic forces are typical of many other rural areas across the Midwest. RiverLands is substantially older, on average, than the nation (Figure 23). It has more than 40 percent more people age seventy-five or older than the nation as a whole and 15 percent more people age sixty to seventy-four. Significantly, the RiverLands region has about 15 percent fewer people in the critical thirty to forty-four age category than the nation overall, with smaller shortfalls in the zero to fourteen and fifteen to twenty-nine age categories.

In short, RiverLands is trying to transform its economy, but must do so with a much shallower bench of youthful talent than most parts of the Midwest or nation. To be sure, Riverlands has witnessed some notable glimmers of hope, none more encouraging than IBM’s recent announcement to locate a new service center in Dubuque, Iowa, with a final tally of up to 1,300 new jobs to the area. Similar signs of economic transformation are found elsewhere such as a successful avionics firm in Platteville, Wisconsin. Still, the industrial inertia is powerful, and seizing new economic opportunities will likely require the region to redouble its efforts to innovate and grow new firms.
III. The New Regional Development Imperative

The rural Midwest still has the same determination and resolve that has defined its people for more than two centuries. Yet determination and resolve will not be enough in crafting a better economic future. The plan for tomorrow must take into account new economic realities, profound shifts that necessitate a new response. The good news is that much is now known about the best way to respond for optimum results. The bad news is that little of this new way is currently happening across the Midwest. A great deal of work must be done to change that.

In simplest terms, the rural Midwest must respond to two powerful events—one long-term, one short-term. The long-term challenge is globalization, the global integration of markets for goods, services, capital, and labor. Globalization means that rural parts of the Midwest can no longer be content to compete with the neighboring county seat, the town once removed that has always defined the Friday night rivalry on the basketball court. No, the rivalry is now global and demands a world-class team. This means that the rural Midwest must earn its economic future the new-fashioned way—through innovation and productivity.

The short-term challenge is to learn from the global financial crisis and recession. With budget deficits soaring higher in state capitals and in Washington, D.C., rural areas will almost certainly face smaller public investments going forward. More of the development burden must be carried by rural places themselves—or they must be prepared to make a highly compelling argument for the public investments they need.

The rural Midwest must embrace what global and national leaders increasingly call the “the new rural paradigm.” The first section of this chapter lays out the basic tenets of this new model for economic development. Public and private leaders must translate this new paradigm into regional plans of action across the Midwest. While this is mostly a new frontier for the rural Midwest, there is a growing bank of experience that provides useful lessons for the Midwest. The second section of this chapter lays out how rural regions in the Midwest can implement this new model of development, drawing on recent research and new regional initiatives in the region.

The new paradigm for rural development

The globalization of markets has profoundly changed economic development everywhere. “Globalization” is a widely used term, but it often goes undefined. For the purposes of this report, it is important to understand everything the term entails. Globalization refers to the worldwide integration of markets for goods, services, capital, and labor. Trade in goods is the most widely understood aspect of globalization. The cargo container is now synonymous with the creation of global supply chains, evident in every Wal-Mart store and in the Midwest farm products that end up on store shelves in Tokyo and beyond. Yet the global trade in services, capital, and labor is equally important. It means the Midwest must compete in global markets for the key ingredients in any formula of economic growth.

Midwesterners probably see the impact of globalization most frequently in the stores in which they shop. Yet the impact on their development strategies is much more profound. A mounting body of research confirms these impacts, including the following three notable sets of findings:

1. **OECD work on regional development.** The summary of and background report for the first-ever global ministerial meeting on regional development policy hosted in 2009 by the Organization for Economic Cooperation and Development (OECD) provide the best global narrative on how the framework for economic development has changed (OECD 2009a, OECD 2009b, OECD 2009c).

2. **The Barca Report.** A major report on the future of regional development and associated policy recently commissioned by the European Commission, widely referred to as the Barca Report, is the most ambitious, rigorous assessment now available of how to develop regions in today’s global economy (Barca 2009). The European Union has been consciously focused on regional development for more than thirty years, longer than any part of the world.

3. **Other regional competitiveness research.** Several strands of research conducted over the past fifteen years have combined into what is now known as the third wave of economic development—regional competitiveness. These research conclusions provide an important complement and foundation for the findings in the other two bodies of research.
The following sections describe these three bodies of research in more detail.

**OECD work on regional development**

The OECD’s work on regional economies over the past decade has created widespread consensus on a new paradigm for regional growth. This consensus was on display at the first global ministerial meeting on regional policy held in Paris on March 31, 2009. Ministers from more than twenty-five countries strongly agreed on a brief formula as the best way to encourage economic growth. This formula provides a good overview of the new regional framework for development.

Specifically, there is strong consensus that the best way to foster regional development is to pursue three things simultaneously:

- **Encourage regional critical mass** — act regionally to compete globally. Put another way, the era of single community/county development is over. Achieving a level of “agglomeration” is critical to success. This agglomeration describes a whole spectrum of beneficial economic synergies that emerge only at the level of a region rather than a single jurisdiction such as a village, county, or city.

- **Prioritize investments in public goods and services to unlock a region’s economic potential**. The key to growth is seizing each region’s unique competitive advantage in global markets. Critical public goods are often required to achieve this. In the wake of the financial crisis, well-targeted investments in public goods will pay especially strong fiscal dividends to states and federal governments wrestling with huge fiscal deficits.

- **Spur innovation to transform a region’s economy**. Innovation is essential to helping regions compete in today’s global economy—competing on cost alone is no longer enough. Moreover, innovation is a distinctly regional phenomenon, shaped by the unique institutional and business features of the region’s landscape, history, and culture. While “regional innovation” remains somewhat of an unknown, special efforts to foster it will almost certainly pay big dividends.

These policy conclusions grow out of extensive analysis done by the OECD to understand the changing world of economic development. The analysis is especially robust because it combines two very different types of research. The first is empirical analysis similar to that done by academic researchers the world over. The second is unique to OECD and especially valuable for the purposes of this volume: on-the-ground case studies in more than forty regions around the world. More than half of these have been conducted in rural regions. These “Territorial Reviews” provide a real-time opportunity to understand how globalization is changing the demands economic developers must answer.

The OECD analysis concludes that the new paradigm for regional growth now has three great pillars. **First, “regions” have become the essential unit of economic development.** A region is not a governmental unit like a county, town, or city. It is a functional geography that shares both an economic today and tomorrow. The overriding importance of regions is the result of two phenomena. Globalization has had its most fundamental impact at the level of regions. This can be observed in an extraordinarily wide disparity of economic performance at the regional level. For instance, OECD analysis shows that “per capita GDP in the top-ranked region of a country is at least double that of the lowest-ranked region, and sometimes far more than that” (OECD 2009b, 11). And there are powerful synergies at work that create so-called “agglomeration” effects at the regional level. These synergies include the pooled skill sets of workers, the spillovers across businesses within a cluster, and the availability of knowledge and capital to fuel new businesses. That said, concentration of resources by itself is not enough to create agglomeration. More is required than just putting enough people and resources in one place.

**Second, regional growth depends on utilizing unmet potential.** Innovation is the surest way to seize such potential. The OECD framework rests squarely on leveraging the economic assets distinct to each region—the essential end to “one-size-fits-all” development. Analysis further shows that innovation is the best way to tap fully each region’s potential. This is a powerful shift from the twentieth century emphasis on using low costs and financial give-aways to make a place more attractive to business recruits. Recent analysis shows that innovation has a strong impact on growth, but the correlation takes time to develop, possibly as much as five years (OECD 2009b, 29). Importantly, the analysis also shows that investments in infrastructure, the dominant theme of development policy...
for the past half century, is a necessary but not sufficient condition for growth. A strong emphasis on human capital and innovation must also be present. This is a powerful shift in thinking about economic development.

Third, rural regions present the same challenges for development as metropolitan regions, with unique opportunities to grow if they seize their distinct potential. OECD analysis has proven that rural is not synonymous with economic decline. Indeed, the record shows that some rural regions rank high in growth in per-capita GDP, while many cities, especially those larger than six million in population, drop much lower in the rankings. This analysis also shows that most rural regions in the developed world are far less dependent on agriculture than they once were, and most employment now comes from other sectors. This pattern certainly applies to the Midwest, where manufacturing supplanted agriculture in employment several decades ago.

The publication of the OECD’s *The New Rural Paradigm* (2006) marked a seminal point in how policymakers around the world thought about economic development. This publication wove together previously disparate strands of policy analysis into a coherent framework that could be applied to countries around the world. The key findings from this publication are summarized in the box on page 45. In general, they show that rural areas must focus even more on thinking regionally in order to acquire the critical mass and synergies necessary to compete globally. They must seize the competitive advantages that flow from their indigenous economic assets. For most rural regions, this means going well beyond agriculture. They must concentrate doubly hard on innovation, since research and development is most often associated with urban centers. Finally, a key to unlocking economic potential is creating a durable partnership at the regional level that spans leaders from public, private, nonprofit, and education sectors.

*The New Rural Paradigm* recognizes that sectoral policies such as farm policy or industrial recruiting have only limited capacity to achieve rural development objectives. In the case of farm policy, for instance, studies around the world show that government payments to farmers rarely lead to broad-based rural economic growth. The principal beneficiaries turn out to be landowners, as higher crop prices are bid into higher prices for farmland.

The report further stresses that rural regions must be much more than the object of policies aimed at subsidizing lagging regions—they must be the focus of public investments that enhance the competitiveness of rural regions. Rural areas may be rich in natural resources, but the new approach emphasizes sustainable development and resource management, especially because rural regions account for most of the sheer geographical territory, even in places like the Midwest, with a fairly dense network of small, medium, and large cities. Finally, the report recognizes that rural areas have highly unique contributions to make in critical new areas of the economy such as green growth and renewable energy. Indeed, most forms of renewable energy will have a decidedly rural footprint—and at a regional level.

These principles are far more than academic. They are being put into practice in many countries around the world. Based on more than twenty case studies around the world, the OECD concludes that a new slate of policy principles is gaining ground in practice. Though these principals are still in many different stages of development, seven are prominent across countries:

1. **Seizing regional competitive advantage.** While development efforts often start out as attempts to “diversify the rural economy,”

   13. The OECD has conducted rural policy reviews at both the regional and national level in both developed and developing countries. A full list of these reviews can be found at [http://www.oecd.org/document/0,03343,en_2649_33735_19214656_1_1_1_1,00.html](http://www.oecd.org/document/0,03343,en_2649_33735_19214656_1_1_1_1,00.html).
seizing unique competitive advantage is becoming the accepted focus. This requires pooling local knowledge on distinct regional assets and then identifying the best competitive advantage based on the region’s resources, strengths, and location.

2. **Investing in transportation and telecommunication infrastructure.** Transportation infrastructure has always been important to rural areas. However, the new emphasis is less on spurring industrial parks and more on linking rural areas to urban centers and on providing the best way to put rural regions and their associated business clusters in touch with vibrant innovation networks in ways that spur rural innovation.

3. **Adopting technologies that strengthen competitive advantage.** While new technologies have always been important in agriculture, a far broader range of technologies will be critical in giving rural regions an edge in competing globally against regions that have much lower labor costs.

4. **Strengthening rural labor markets and boosting worker skills.** New rural policies increasingly recognize that many rural regions must train their workers for a whole new generation of jobs and that aligning workers with new jobs will strain the thin labor markets that are often found in rural areas.

5. **Fostering better collaboration across jurisdictional lines in rural regions.** Rural regions the world over are often characterized by a certain “balkanization” that must be overcome to create the critical mass and synergies essential to new forms of growth. This means individual local governments must replace competition with cooperation, not an easy task.

6. **Restructuring agriculture by increasing value-added business activities.** Traditional agriculture focuses on commodity production. The new agriculture aims to capture value in a far broader range of business activities, including regionally branded high-value foods, alternative forms of energy, and livable landscapes, sometimes referred to as multifunctional agriculture.

7. **Improving the delivery of public services in rural areas.** The shift to regional economic development carries with it the need to rethink and align the delivery of public services. This encompasses issues such as telemedicine and distance learning, which enable rural areas to tap state-of-the-art services at the lowest possible cost, enhancing their ability to compete economically.

### The Barca Report

The **Barca Report** represents state-of-the-art thinking on how best to spur economic development in regions. It was commissioned by the European Commissioner for Regional Policy and intended to frame the debate on the future of regional development policy in Europe. The report included ten major hearings on regional development issues and engaged leading academics and thought leaders from around the world.

The report is especially valuable in considering the economic future of the rural Midwest for two reasons. First, it weighs in on the best framework for economic development based on the best theory and practice from around the world. Second, it identifies the key gaps that policymakers must fill if economic development is to succeed.

The **Barca Report** squarely endorses the OECD framework for regional economic development. It concludes that the OECD’s model for regional development “has gained international consensus over the past twenty years.” The report notes that this new paradigm is rooted in functional economic regions not defined by administrative boundaries. It emphasizes seizing each region’s competitive advantage, which flows from its distinct economic assets. It targets and concentrates investments in public goods that unlock this economic potential (Barca 2009, 4).

The **Barca Report** concludes that regional economic growth rests on two critical pillars. One is agglomeration—the ability to create synergies on a regional scale that spur innovation, knowledge spillovers, and linkages across clusters of businesses. The other is networks, to which the OECD has given less attention. “For a region to grow often requires strong “network effects” to be at work, i.e., that it is able to benefit from the growth occurring elsewhere because of transport, energy, ICT [information and communication technologies], and other connections” (Barca 2009, 18).

Networking is a concept that experts increasingly use to describe the ability of businesses in a region to make the complex connections necessary to compete effectively. These connections take many forms: connections among businesses (the essential idea behind clusters); connections with engines of innovation (whether public or private research institutions); connections with capital markets; and, above all, connections with regional, national, and international markets.

The Barca Report draws a major conclusion that provides a crucial foundation for drafting any new economic game plan for the rural Midwest. Regions rarely, if ever, achieve their full potential without outside intervention. The authors suggest the necessity for intervention results from two powerful market and government failures. First, a region can be trapped in a path that delivers no new growth because the local elites that control decisions have a strong vested interest in the current state of affairs. Such “path dependency” often requires an external jolt to shake things up and create the new conditions that will foster economic growth. Second, the report notes that agglomeration is “always the result of public and private decisions.” In particular, the key to growth in the new paradigm for regional development is identifying the public goods that unlock a region's competitive advantages. The report states that the selection of such public goods must be “visible and verifiable and submitted to scrutiny together with the initiation of a process whereby everyone is given the opportunity and the information to participate and to voice their dissent. A place-based approach has the potential to ensure this” (Barca 2009, xi).

In short, a focus on regional competitive advantage has the greatest likelihood of success, and success depends on identifying public goods critical to unlocking a region's competitive edge in global markets. Public policy plays a critical role in providing the necessary “jolt” to do this, and the overall aim of this intervention should be to capture the benefits of synergies and networks that only regions have the scale to capture.

Other regional competitiveness research

Economic experts have passed through three critical eras of economic development thinking since World War II—industrial recruiting, cost competition, and regional competitiveness (Drabenstott 2005; Morrison 1986, 1987). These eras represent very different approaches to improving economic well-being. They represent strikingly different strategies for economic development, yet in practice the lines are far more muddled. Indeed, while researchers now extol the virtues of the third wave, the first two still dominate development efforts throughout much of the nation and perhaps especially in the rural Midwest.

Industrial recruiting

Industrial recruiting had its roots in the recruitment strategies that many states and communities adopted after World War II. During this period, economic development strategies emphasized financial incentives to attract factories and focused on investments in physical infrastructure to move inputs to factories and finished goods to markets. Indeed, this era became synonymous with “smokestack chasing.” At its core, this approach was based on an “export base” model. The thinking was that places grow when they can export products (or services) to other places, whether to the next county over or to a foreign country. This theory essentially looked at economic development from a demand point of view and stated that money must flow into a region for it to grow. The only way to get more money into the region was to export more. The resulting influx of income would be spent locally, creating a cascading cycle of benefits, something economists called a multiplier effect.

This era had a profound effect on the rural Midwest. From Ohio to Nebraska, the countryside is dotted by industrial parks on the edge of town. Development became a fairly simple formula: Recruit a factory to the edge of town, and give away the farm to get it!

Cost competition

Cost competition began in the early 1980s and emphasized industry consolidation and achieving economies of scale. Deregulation became the policy rule and active government involvement in economic development devolved to states and localities, a process that came to be known as “new federalism.” This shift was, in fact, the key development policy innovation of the period. A widespread view was that firms could drive down costs by investing in more capital equipment, and regions would respond by creating a low-cost

15. These are summarized on page XI of the Executive Summary and discussed in greater detail on pages 31 to 36 of the full report.

16. For a full discussion of these three eras and the ideas that shaped them, see Drabenstott (2005, chap. 2, 21-51).
business environment. Thus, to compete, economic development organizations focused on providing more aggressive, deeper incentives. The focus in this era was more diffuse and relied on creating a business and regulatory climate that encouraged private investment by reducing costs.

Regional competitiveness

This era began in the late 1990s, emphasizing the quest for each region first to identify its competitive advantages and then to prioritize the public and private investments necessary to exploit those advantages. This approach marked a sharp departure from the earlier two. For the first time, economic development became a process much more finely tailored to the distinct economic assets of each region. In short, regional competitiveness marked the end of “one size fits all.”

The regional competitiveness approach weaves together three important findings about how regional economies work. The first is the importance of clusters to regional economic growth (Porter 1998). The second is that the clustering of economic activity gives rise to “agglomeration economies” that are critical to understanding the new economic geography, namely why some regions attract industrial investment and others do not (Krugman 1991). The third focuses more on the regional character of organic growth through innovation and entrepreneurship. This research notes that fresh ideas and a fertile seedbed for those ideas to take root are critical determinants to regional growth (Acs and Armington 2004).

Policy officials and development experts increasingly agree that the regional competitiveness approach offers the greatest promise for sustained economic gains. In practice, though, the first two eras still mostly guide the behavior of local practitioners. A mounting pile of evidence shows that development practitioners need a very different set of tools, guidelines, and objectives to succeed in this new era. In general, the tools themselves and the willingness to apply them are both in short supply.

A new strategy to develop the rural Midwest economy

The theoretical framework for transforming the rural Midwest economy is clear. How to do it in practice is much more of a challenge. However, the experiences of a handful of rural regions in the Midwest and many more beyond provide some clear windows on the future. This section lays out the essential building blocks for developing a rural “region” in the Midwest. These key elements derive from the author’s first-hand experience in three regional development initiatives—two in the Midwest and one in the South. They also derive from the author’s in-depth participation in and leadership of the OECD’s path-breaking work on regional development. Finally, they are informed by the author’s participation in a major report just published by the Economic Development Administration (EDA). To simplify the discussion, the new strategy will be presented in terms of four key principles. Each is summarized in turn, including some practical lessons drawn from a highly successful regional development project—the Southern Minnesota Regional Competitiveness Project.

Principle #1: Regional partnering to create critical mass

The starting point for transforming the rural Midwest economy is to think regionally to compete globally. Actually, ground zero is figuring out, “What’s a region?” There is no right or wrong answer to this question, but one principle is paramount: Regions form best from the bottom up, not the top down. This means that conditions must be created in which counties will choose to partner with a healthy number of neighboring counties.

17. As discussed in Drabenstott 2005, the regional competitiveness framework for explaining how regions best grow has developed in three distinct strands of economic research that over time have woven together into a coherent development model. Some economists have focused on the importance of clusters, suggesting that a concentration of similar firms creates synergies that can fuel growth (notably Porter 1998, but many others, including Audretsch and Feldman). Others have focused on a new economic geography, in which local amenities are critical determinants in creating a pool of skills and capital that can spawn new ideas and businesses and grow a region’s economy (Krugman). Still others have focused more on entrepreneurs and innovation, arguing that fresh technologies and the right climate can lead to a rich seedbed of businesses, spurring economic gains (Holtz-Eakin and Kao; Acs and Armington). While each strand has merit in its own right, together they form a strong consensus that regional competitiveness is becoming the accepted model for regional economic growth.

18. For an in-depth discussion of these tools, see the Economic Development Administration publication Crossing the Next Regional Frontier: Information and Analytics Linking Regional Competitiveness to Investment in a Knowledge-Based Economy. This section draws heavily on Chapter 2, “The Emerging Importance of Regional Strategy,” written by Mark Drabenstott and Ed Morrison.

19. Extensive reports that chronicle this project are available at http://www.mnsu.edu/ruralmn/regcomp.html.
There are no ground rules for what “healthy” means, although it is probably not off base to suggest somewhere between fifteen and thirty counties in much of the Midwest, and perhaps more than that where population density is lower. This represents a rough rule of thumb that may create a starting point for discussion among regional stakeholders.

These fifteen- to thirty-county regions will form the new, essential nucleus for rural development in the Midwest. They will be volunteer collaborations—coalitions of the willing. They will be defined by a common economic future, not the jurisdictional lines laid down by surveyors hundreds of years ago. In some cases, they will cross state lines—a near heresy for the past century or more. They will adopt many different formal terms of engagement, participation, and commitment. Above all, they will each forge unique development strategies because they all start with highly distinct sets of economic assets, businesses, and capacities to innovate.

The goal in each new regional partnership will be assembling the critical mass essential to create a competitive edge in global markets. Each region will understand that some of their very best economic opportunities arise only when the partnership extends well beyond a single county’s borders. Synergy will be the byword in these partnerships.

In southern Minnesota, getting to an agreed definition of the region was neither easy nor quick. The Southern Minnesota Regional Competitiveness Project had a determined champion at the start—Agstar Financial, a $5 billion Agricultural Credit Association in the Farm Credit System based in Mankato, the commercial center of southern Minnesota. They wanted other regional partners to join them in crafting a regional development strategy founded on the region’s strengths. They were also determined that this strategy lead to a new slate of investment priorities for the region, both public and private.

Over six months the number of partners swelled to more than a dozen. In the process, there was active give and take over what the “region” should be. In the end, what started out as a twenty-two-county region centered on southeast Minnesota grew to thirty-eight counties covering the entire southern third of the state. To be sure,

---

20. AgStar is a cooperative owned by its farmer borrowers, part of the nationwide Farm Credit System. This project was, in fact, the first time a Farm Credit System entity had led such an ambitious rural development initiative anywhere in the nation.

21. Two regional philanthropies, the Southern Minnesota Initiative Foundation (SMIF) and Southwest Initiative Foundation (SWIF), were instrumental in the final determination of the “region.” The thirty-eight counties represented the twenty-counties covering the entire southern third of the state. To be sure, some partners expressed ongoing doubts throughout the year-long project as to whether these were the “right” counties. In the end, however, the process actually yielded a strong congealing around the thirty-eight county footprint. The geography, in effect, became the region’s brand.

**Principle #2: Focused action and investment in the region’s competitive strengths, especially those that transform the economy**

Once the regional partnership is in place, its focus should be to identify the region’s real competitive advantages—what it does best in the global economic “Olympics,” as it were. Such economic opportunities can only be determined through a deliberate process with two parts. The first part is to pool the knowledge of the region through in-depth dialogue among public, private, nonprofit, and educational leaders. The second part is rigorous, arms-length analysis of the region’s economic trends and structural makeup. The result of this dialogue and analysis is a menu of economic opportunities from which the region can select the “best” economic future it wants to seize.

An essential element of success is creating an environment of trust and commitment in which all stakeholders in the region are willing to pool their knowledge. Under the new paradigm for regional development, the onus for success falls on regional leaders more than ever. A region’s competitive advantages are not always obvious. Often, they appear only as a result of in-depth discussions between regional stakeholders, where knowledge can be pooled and “what-ifs” are shared in candid exchanges among leaders. Thus, a sort of King Arthur’s roundtable is required to provide the safe space where such exchanges can be provided.

The other key to success is rigorous analysis of the region’s economy and its potential. This is largely a scientific frontier at this stage, but there have been great strides in recent years in developing the analytical tools regions need to assess their competitive advantages. These tools include structural economic analysis, business cluster analysis, occupational cluster analysis, and innovation capacity analysis. None of these represents a “silver bullet.” They each have strengths and weaknesses, as shown in Table 3.
The best assessment comes from a creative combining of regional knowledge and rigorous analysis. This combination provides the best composite view for gauging future potential. The goal is to identify a handful of economic opportunities that have the potential to transform the region’s economy.

This combined method played out over twelve months in southern Minnesota. The project began with thirteen meetings throughout the region, engaging more than eight hundred public, private, nonprofit, and educational leaders. This provided significant collective insight on the future. The project continued with an in-depth analysis of economic opportunities undertaken by the Rural Policy Research Institute’s Center for Regional Competitiveness. The result was the Southern Minnesota Economic Game Plan, with six strategic opportunities and consensus on targeting three for immediate action: advanced manufacturing, bioscience, and renewable energy.23 The Economic Game Plan outlined sixteen specific action steps over the next twenty-four months. The region is now implementing those steps, while refining its priorities for investment in public goods critical to seizing each of the three transforming opportunities.

**Principle #3: Building a regional innovation system**

Regardless of a region’s competitive advantages, innovation is critical to seizing any of them. The focus on industrial recruiting, financial incentives, and cheap costs of production is so powerful and persistent that most rural regions in the Midwest have neglected their capacity to innovate. Taking decisive action to boost this capacity in a way that best suits the unique business and institutional landscape of the region will pay big dividends in nearly every case.

Much remains to be discovered about designing effective regional innovation systems, but three fundamentals are likely to animate action plans in most regions. The first is infusing an “innovation culture” throughout the region—in businesses, schools, universities, and government. Smokestack chasing has put the emphasis on deals and dealmakers—assembling whatever package of incentives is required to convince a business to relocate. This creates a sense of complacency on “everything else.” It turns out that everything else is more important to sustained economic growth than the deals themselves. Put another way, the persistent reliance on industrial recruiting represents a decided “path dependency” that must be overcome if the Midwest wants to transform its economy. Instilling an innovation culture represents the new pathway to the future.

An innovation culture, on the other hand, creates heightened awareness throughout the region of all the “what ifs” that result from creative combination of the region’s economic assets. Such awareness must flow from an educational curriculum that embeds entrepreneurial skills early in life. It also flows from deliberate efforts to “connect the dots” through dialogue among regional stakeholders that would otherwise not occur. Creating the environment for such dialogue is more art than science at this point, but such discussions build the networks that the Barca Report and others cite as one of the keys to regional success.

The second fundamental is consciously designing “transmissions” that translate the creative horsepower of innovation “engines”

---

into real economic activity in the region. The Midwest created the V8 engine. But it has very little value if it is never connected to a transmission! In much the same way, the Midwest has one of the best constellations of public universities and private colleges in the nation. These represent powerful engines of new ideas, yet many of the ideas never leave campus. The response has most often been to construct a research park on the edge of campus. While many of these have proven highly successful in their own right (Purdue's Research Parks come to mind), in most instances they represent the innovative equivalent of the industrial park that has dominated economic development for a half century. To be sure, some universities have replicated the research park in other venues in their home state (for instance, Purdue has created three in Merrillville, Indianapolis, and New Albany). In the end, though, the university research park is almost never designed with the new model for regional development in mind.

Geography is not the only dimension in which there is a misalignment. The engine/transmission analogy may give the best overall picture of what is needed. But the translating of foreign languages offers another helpful way to think about the challenge. Researchers speak a very different language than entrepreneurs. Researchers have every incentive in today's university to keep spinning out new ideas, even if they simply get added to an already full shelf (or even attic). Whether any of those ideas see the light of day in the region's economy is, generally, not their concern. Entrepreneurs, meanwhile, must live and die by their ability to take ideas to the marketplace successfully. They often do not have the skills or time to scour the attics of the researchers for the idea they need most. And, in many cases, the attics may be organized in a "language" the entrepreneurs simply cannot decipher. This dilemma calls for a "translator," an intermediary that can express ideas to entrepreneurs in terms that they can understand. Researchers, entrepreneurs, capital providers, and business service providers can come together in synergistic ways. MaRS has been so successful that they have now doubled the space to 1.5 million square feet, a clear testament to the value of intermediary mechanisms in today's knowledge-driven economy.

The third fundamental for designing effective regional innovation systems is to create a world-class entrepreneurial climate. Innovation centers on engines and transmissions. Entrepreneurs are the drivers behind the wheel. Peter Drucker argues that innovation is the "specific tool of the entrepreneur." The entrepreneur is the means by which change and innovation are brought to the marketplace (Drucker 1985). Moreover, he suggests that entrepreneurs can become more proficient in leveraging innovation when they are in the right environment—that a "purposeful and organized search for change" can yield more and better entrepreneurs.

The rural Midwest shows mixed results in terms of its entrepreneurial climate today. One measure of entrepreneurial activity developed at the Federal Reserve points to a highly uneven pattern of business formation (Figure 26). This may reflect the ongoing reliance on recruiting businesses instead of growing them. At the same time, another measure of entrepreneurial achievement (in this case sales per business) suggests the region is doing somewhat better compared to national benchmarks (Figure 27). This may reflect the relative prosperity of many Midwestern farm owners.

Creating the best climate to "grow" entrepreneurs has often been likened to "economic gardening." It requires a support system, access to essential growth ingredients (including labor and capital), and a "climate" that is conducive to growth (including such things as taxes, infrastructure, and education). While all these things are true in general and are often applied at the community level, there is a powerful alignment between the new paradigm for regional


25. This is a measure of “entrepreneurial breadth,” the number of business proprietors compared with total employment. For a fuller discussion of this measure, see Low (2004).

26. This is a measure of “entrepreneurial depth,” total proprietor income compared with the number of businesses. Again, see Low (2004).

27. For a full discussion of this concept, see Quello and Toft (2006).
development and new regional thinking about entrepreneurship. Many experts now suggest that just as growth is regional in scope, so are entrepreneurial support systems (Lyons 2003; Kutzhanova, Lichtenstein, and Lyons 2004). Above all, they point to the critical need to provide technical assistance and access to capital in a manner that is “systematic in approach and regional in scope.”

These three fundamentals can inform the creation of new regional innovation systems in rural regions across the Midwest. In the end, however, the new mechanisms must reflect the unique business and institutional landscape of each region. Southern Minnesota is a prime example of the need to customize the outcome. Two outcomes there are especially noteworthy for other rural regions in the Midwest.

Southern Minnesota’s bioscience initiative is a powerful example of infusing a new culture of innovation by “connecting the dots.” The region has three exceptional bioscience assets: the Mayo Clinic, one of the best research and diagnostic hospitals in the world; The Hormel Institute, a lesser known but highly successful cancer prevention research institute; and an agricultural powerhouse that is among the most competitive in the world in growing agricultural commodities such as corn and soybeans.28 While each of these contributes importantly to the economy of southern Minnesota, their combined effect had never been fully explored.

Recognizing that bioscience opens up new economic horizons that often start with the molecule, the Southern Minnesota Project deliberately created a safe space for representatives from the Mayo

---

28. The Hormel Institute has been in Austin, Minnesota, for more than a half century. It was founded by the Hormel Company’s Foundation. It is especially focused on the link between diet and cancer prevention. Among its many discoveries is the role of omega oils in promoting health and preventing illness. The institute collaborates with the University of Minnesota and the Mayo Clinic, among others. For more information see http://www.hi.umn.edu/.
Clinic, The Hormel Institute, and farm groups to share dialogue on the region's economic future. This “connecting of the dots” had a powerful effect. For the first time, soybean growers learned that medical researchers were actually conducting experiments on insects that attack soybean plants—not because they cared about southern Minnesota soybean farmers, but because they held promise in unlocking medical discoveries. Medical researchers learned that farm organizations had a keen interest in using such discoveries to develop new plants that could transform their farm businesses. These groups have now held three meetings and are moving to more in-depth discussions about concrete business development in the region. What were three disjointed “dots” on the southern Minnesota landscape could become a new cluster of economic activity that could dramatically alter the region's economic future in myriad ways.29

Drawing on the bioscience success, southern Minnesota is exploring ways to more deliberately harness its innovation engines. The region is blessed with a very strong lineup of more than a dozen public universities, private colleges, and public and private research organizations. These include one campus of the University of Minnesota, three campuses of the Minnesota State Colleges and Universities (MNSCU), and the Agricultural Utilization and Research Institute. It also has a deep bench of companies engaged in crop and livestock genetic research. As with most regions, however, the question is whether all this horsepower is creating new economic activity.

As part of its Economic Game Plan, the region will be exploring the creation of a Southern Minnesota Innovation Institute. This institute would be designed to serve purely as an enhanced “transmission,” much as MaRS has done in Toronto. The aegis, funding, and full range of activities are all open question at this point. Yet the recognition that the region needs a better transmission mechanism and the commitment to build it are very encouraging signs, just the sort of mid-course corrections.

Regional partnerships are uncommon in the rural Midwest, indeed, in rural America and beyond. Any attempt to build enduring regional collaboration must clear several high hurdles: county lines drawn for an earlier economic era; the predominance of smokestack chasing, with its highly competitive and “beggar-thy-neighbor” method; and the embedded culture of high school rivalries played out on basketball courts and football fields. Nationally syndicated columnist Neal Pierce and urban expert Curtis Johnson sum up the problem succinctly: “Collaboration is messy, frustrating, and indispensable” (1998).

There are few comprehensive guidelines for building such partnerships, but five appear critical to success. The first is that the partnership must be diverse and inclusive, representing the full extent of the region and the tapestry of culture found within it, making room for those who may have been disenfranchised in previous development efforts. Leaders must be engaged from the public, private, nonprofit, and education sectors. In this regard, founding partners must ensure widespread participation. One useful construct for thinking about regional partnerships is so-called network theory (Cross and Thomas 2009). In essence this theory helps explain how networks can be built across the various constituencies that must be part of any regional strategy.

The second guideline is that for dialogue to succeed, as mentioned under Principle #2, there must be a “safe space” for it to

Principle #4: Sustaining robust regional partnership

With competitive advantage at the heart of the new paradigm for regional development, it may be tempting for rural areas in the Midwest to simply go out and buy sophisticated analysis of their best economic opportunities. Focusing only on the analysis would be a huge mistake, however. In the end, transforming the economy of the rural Midwest is one part science (the analysis) and one part art (the partnership). Every case study from around the world confirms that the art trumps the science.

Regional partnership must be at the very core of every new regional initiative in the rural Midwest. Such partnership is essential for pooling the knowledge about the region that secondary data never fully uncover. In the end, however, it is also the sufficient condition for regional success. The regional partnership must oversee the crafting of the regional strategy, its successful implementation, and the ongoing monitoring of its success, including mid-course corrections.

Regional partnerships are uncommon in the rural Midwest, indeed, in rural America and beyond. Any attempt to build enduring regional collaboration must clear several high hurdles: county lines drawn for an earlier economic era; the predominance of smokestack chasing, with its highly competitive and “beggar-thy-neighbor” method; and the embedded culture of high school rivalries played out on basketball courts and football fields. Nationally syndicated columnist Neal Pierce and urban expert Curtis Johnson sum up the problem succinctly: “Collaboration is messy, frustrating, and indispensable” (1998).

There are few comprehensive guidelines for building such partnerships, but five appear critical to success. The first is that the partnership must be diverse and inclusive, representing the full extent of the region and the tapestry of culture found within it, making room for those who may have been disenfranchised in previous development efforts. Leaders must be engaged from the public, private, nonprofit, and education sectors. In this regard, founding partners must ensure widespread participation. One useful construct for thinking about regional partnerships is so-called network theory (Cross and Parker 2004; Cross and Thomas 2009). In essence this theory helps explain how networks can be built across the various constituencies that must be part of any regional strategy.

The second guideline is that for dialogue to succeed, as mentioned under Principle #2, there must be a “safe space” for it to

29. As but one example, the per-acre returns of growing functional foods or “pharmaceutical crops” could be a multiple of current returns from growing bulk commodities.
happen—a King Arthur’s roundtable, as it were. A critical early question is who will supply this roundtable. In many rural regions, candidates for King Arthur are often in very short supply. If so, some external organization may need to step up and fill the void. Experience suggests that philanthropies and other nonprofits often supply the trusted, neutral territory that can overcome the turf protection that is rarely far from the surface in regional discussions.

The third guideline is that persistence pays dividends. No regional partnership in the rural Midwest will be built in a day. The legacies of county lines and the rivalries from decades of heated industrial recruiting and high school sporting events are too vivid in the collective conscience. Thus, it is crucial for regional champions to stay the course and keep the roundtable open, even in the face of opposition. In most rural regions, a tipping point will be reached after which skeptics will most likely join the common cause. On the other hand, it must also be recognized that some regions will either lack the champions or the fortitude to persevere long enough for the partnership to congeal.

The fourth guideline is that incentives may be required to ignite any partnership. Some regions are so “balkanized” that even a handful of champions may not be able to get anywhere. In such cases, an outside incentive, even if small, may make a big difference. The U.S. Department of Labor’s WIRED program is a good example of this. In its first round it spurred the creation of thirteen new regional economic development initiatives. To be sure, the $15 million awarded to each region no doubt caught their attention. But there are other examples in the United States and beyond that suggest that financial incentives that at least offset the “transaction costs” of forming a region are often rewarded. In general, this bears out the finding in the Barca Report that external actions are often necessary to jolt a region out of its path dependency.

The final guideline is that regions must give careful attention to providing a long-term home to newly formed regional partnerships. It is not enough to simply hold a series of regional meetings and declare victory. The partnership must endure and be entrusted with implementing and overseeing the region’s hard-won strategy. Early assessments of the WIRED program, for instance, would suggest that the financial incentives brought quick regional collabora-

Putting it all together

In short, the rural Midwest must replace its long-running reliance on smokestack chasing with a fundamentally different approach that builds regional critical mass founded on the region’s core economic strengths. This will result in unique action plans with vastly different investment priorities all across the Midwest. The era of “one size fits all” has ended. The new development paradigm is inherently simple and rests on a relentless focus on how the region can innovate with the economic strengths it has. What is far less simple is the process of implementing it in a region. Success is ultimately defined by the ability of any rural region in the Midwest to do three things: collaborate, analyze, and coach. Together, these three actions represent the essential building blocks of regional development.

The first building block is collaboration. Collaboration aims to align all the economic stakeholders in the region instead of allowing...
III. The New Regional Development Imperative

tive regional coach will facilitate the dialogue, being an impartial umpire to mediate disputes, but also a “Gipper” to inspire stakeholders to seize their full potential. The coach is also a conductor, guiding the overall regional strategy process, keeping participants focused on delivering a coherent game plan. In all of these roles, the coach must be adept at building trust by facilitating dialogue, yet also be comfortable and skilled in the analysis that brings discipline to the task. In short, the coach must straddle both worlds of collaboration and analysis and, where necessary, help the region by enabling participants to connect their own areas of expertise. Europeans increasingly use a metaphor of the “triple helix” to describe the dynamic interplay between business, government, and universities.31 In much the same way, effective regional coaches supply the critical elements for the woven strand that becomes a regional strategy. The critical role of the coach is becoming much clearer in the new paradigm. The irony is that coaches appear to be very scarce across the Midwest. This is a conundrum that must be addressed.

Southern Minnesota again provides very helpful insights on how other Midwest regions can put together a development recipe for success (Figure 28). Collaboration was an extensive process, with more than thirteen roundtable meetings and two summits engaging more than 1,200 leaders from across the entire region. This repeated invitation to engage proved highly successful, resulting in a high level of trust in the process. One clear sign of this trust was the presence of the governor, a U.S. senator, a member of Congress, and more than a dozen state legislators and officials at the summit meetings. The process of analysis involved building an extensive county-level database that was then aggregated to the regional level and analyzed for critical trends and, above all, economic potential. This culminated in the identification of six strategic opportunities, from which the region chose to focus immediate attention on four. And the coaching was provided by the RUPRI Center for Regional Competitiveness. This public organization straddled the collaboration and analysis, weaving them together in what became the region’s Economic Game Plan.

Figure 28 - Three Key Processes at Work in the Southern Minnesota Regional Competitiveness Project

<table>
<thead>
<tr>
<th>Collaboration</th>
<th>Build partnership, strengthen regional framework for action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Partner Team Formed</td>
<td>10 Local Roundtables, 520+ Leaders (Sept/Oct 2008)</td>
</tr>
<tr>
<td></td>
<td>3 Regional Roundtables, 300 Leaders (November 2008)</td>
</tr>
<tr>
<td></td>
<td>Futures Summit, 250 Leaders (March 2009)</td>
</tr>
<tr>
<td></td>
<td>Strategy Summit, 200 Leaders (May 2009)</td>
</tr>
<tr>
<td>Coaching</td>
<td>Provide an impartial umpire, facilitate discussion, integrate analytics and dialogue</td>
</tr>
<tr>
<td>Analysis</td>
<td>Identify key trends, narrow strategic alternative</td>
</tr>
<tr>
<td>Structural Analysis</td>
<td>Cluster Analysis</td>
</tr>
<tr>
<td></td>
<td>Innovation Capacity Analysis</td>
</tr>
<tr>
<td>Source: Economic Development Administration, 2009, Table 1, 35.</td>
<td></td>
</tr>
</tbody>
</table>

31. The “triple helix” approach to innovation is highlighted in Finland, which has made it a centerpiece of innovation and regional development. For a full discussion of Finland’s formulation of this approach, see OECD 2005b.
IV. An Agenda to Transform the Midwest’s Rural Economy

The path to stronger economies in the rural Midwest is plain. Partnering regionally to compete globally is what is needed. This pathway leads to scores of multicounty, self-defined regions across the sweep of the Midwest. This path is based on a global consensus about how to boost economic well-being in the twenty-first century, and it is already beginning to emerge. Yet there is a long way to go in making it the new norm of development policy and practice in the Midwest. Where is that norm today, and what must be done to create the best possible framework for change? This section outlines the existing policy and institutional framework for development in the rural Midwest, showing how it remains largely rooted in the past. It then lays out recommended changes to create a more conducive framework for transforming the rural Midwest economy. These recommendations cover federal and state policies, local development practice, university programs, and nonprofit initiatives.

The existing framework for rural development in the Midwest

Despite some innovative changes over the past decade, the Midwest development framework shows decided signs of age and it is still, by and large, supporting a twentieth-century style of economic development. For much of the Midwest this means single county/single community development initiatives overwhelmingly focused on industrial recruitment. Its underlying assumption is that the rural Midwest is a cheap place to produce things, whether farm commodities or industrial widgets. To be sure, another centerpiece is the legendary work ethic of Midwestern workers. Nonetheless, the industrial park at the edge of town (and the far less visible battery of financial incentives to fill that park) remains the abiding symbol of Midwest rural development. A critical companion is undying support for farm commodity subsidies, a huge portion of which flow to Midwest farmers. Policies and practices at all levels continue to support this outdated infrastructure.

Federal economic development policy remains heavily oriented toward a twentieth-century model, although there are some encouraging signs of change. A Federal Reserve Bank report in 2005 undertook a comprehensive review of the whole sweep of federal economic development policy, including an extensive tracking of where federal dollars go. It concluded that this large federal effort “is carried out through nine federal departments and five independent agencies, forming a sort of Rube Goldberg policy apparatus cobbled together over the past fifty years or so” (Drabenstott 2005, 3). Over time, Congress has divided up the economic development effort across no fewer than 180 programs.

Importantly, very little of the overall budget is spent on regional development. The focus on single communities or counties remains highly attractive to public officials—at federal and state levels—since the benefits from economic development programs can be spread widely, if thinly. Similarly, the general thrust of federal policy is physical infrastructure, the persistent belief being that key sectors of the economy will benefit from such investment. Finally, federal policy essentially assumes that all regions grow the same—a “one-size-fits-all” approach prevails, with little customization across regions.

These broad conclusions are borne out if one follows the trail of federal dollars. The Federal Reserve report analyzed all federal spending on economic development, breaking down Office of Management and Budget (OMB) data by type of economic development first done by Drabenstott 2005, 9-20.

---

32. The OMB has a very useful taxonomy to categorize federal spending in this regard. These are elaborated in Budget of the United States Government: Detailed Function Tables, Fiscal Year 2009, Executive Office of the President of the United States.
Economic development practice is beginning to change at the local level across the Midwest, but the parochial approaches taken by county economic development boards and chambers of commerce still dominate. Chambers of commerce still see economic development as one of their core functions, and they always kick into high gear when a business gives an indication it might be interested in their communities. Significant sums are spent on “site selection studies,” though no data are available to document just how much. County economic development boards follow a very similar tack, and most view the neighboring county as the chief competition in the “buffalo hunt” for new business.

Still, there are promising signs of change. New regional initiatives are springing up across the twelve Midwest states. Many of these are rural counties banding together, some reflect metropolitan areas, and some capture the mix of cities and countryside that define much of the Midwest. To gauge how significant this trend is, we contacted several regional development organizations and regional economic experts across the Midwest to determine how widespread regional initiatives are and whether they could identify any new “best practice” regions. The responses indicate the following:

- Regional thinking is still the exception rather than the norm. Nearly all respondents can point to regional development initiatives such as Southern Minnesota, though many are in early stages of development. In addition, regional groups form for

---


34. For a fuller discussion of how farm policy creates strong path dependency for Midwest farmers, see Drabenstott 2006.
many reasons, not always for the purpose of economic development (natural resource management is another common one).

• The relatively scarce successes in regional development in the rural Midwest are gaining visibility and attracting some converts among traditional economic developers. The Milwaukee 7 initiative to develop a water cluster is one touted success that some regard as a new model.35 The Indiana WIRED project is similarly viewed as making headway in a state where the practice and culture was long attached to county initiatives.36

• Economic challenges are creating a more fertile field for regional thinking. In the case of Indiana, regional thinking was critical in forming a new “defense cluster” in both southern Indiana and in Fort Wayne. Both regional initiatives were spurred by steady erosion of the underlying industrial base, the usual target for recruitment.

University and education programs have been slow to respond to the new regional paradigm for development. Universities see themselves principally in the business of educating students, conducting research, and entering into the broad field of extension or, more recently, engagement. These are all critical elements to the economy overall. But they do not necessarily align with regional development. Consider two examples. Research is a huge endeavor of Big Ten universities, many of which command high rankings nationally for the volume of research grants they attract. Yet the overwhelming focus of most university administrators is to attract still more research funds. This means the innovation engines develop ever more horsepower. Yet for regional development, the key is not raw horsepower. It is harnessing that power through effective transmissions. Thus, one broad characterization of the rural Midwest would be lots of horsepower, not enough traction.37

On the other hand, Midwest universities in partnership with states and counties have always invested heavily in Extension Service programs to “extend” the university to all corners of the state. There are promising shifts in some of these programs, most notably Purdue University’s Center for Regional Development, housed in their Office of Engagement.38 Yet in most Midwest states, Extension Service programs still operate mainly by sector and by county. Agriculture and manufacturing remain the principal economic thrusts, and county programs are still common, though some regional offices are emerging. Many Extension Service leaders would welcome a new mission surrounding regional development. Yet the fact remains that regional development is not where program staff and dollars are devoted today.

Community colleges in the Midwest are highly sympathetic to regional development, though not yet fully immersed in the new regional framework. They have well-established credentials bridging local workforces with new economic futures. They often have regional footprints in terms of student catchment and service delivery. Historically, however, they have not invested in the kinds of analytical capacity or regional dialogue that are at the core of the new rural development model.

In some cases, rural community colleges have provided sterling leadership in new regional initiatives in the Midwest. The True North initiative in the Arrowhead region of northeast Minnesota is a telling example. Reforming the structure of seven county-level community colleges in Minnesota’s Iron Range led to one regionwide community college that discovered it could provide powerful leadership in transforming the region’s economy.39 There are many other parts of the rural Midwest where a similar story could play out.

K-12 education is a strong asset for the rural Midwest, but it sees its contributions mainly through the lens of the old economy. For decades Midwest primary and secondary schools have been highly regarded, reflecting the longstanding respect for education among those who settled its prairies. The dilemma is that many schools across the twelve states, and perhaps especially in rural areas, see themselves turning out workers for businesses that come to the area. In this respect, innovation and entrepreneurship get short shrift. Yet the skill sets for innovation and entrepreneurship will pay bigger dividends to most rural areas of the Midwest than training workers for the auto industry.

An encouraging sign is that many school administrators, concerned about future finances, are eager to explore new roles in

36. See http://www.indiana-wired.net/.
37. For a more in-depth discussion on the role of higher education in regional development, see OECD 2008 and Drabenstott 2008.
38. A full summary of this Center’s activities is found at http://www.pcrd.purdue.edu/.
39. See Sertich (2004, 2007) for a full discussion of this initiative and the role the community college played.
IV. An Agenda to Transform the Midwest’s Rural Economy

Past Silos and Smokestacks

The Southern Minnesota Project benefited greatly from strong participation by school superintendents from all corners of the thirty-eight county region. In every case the school leaders were anxious to reform curricula in ways that could transform the region’s economy. But they also stressed the need for business and public officials to support such changes with clear visions of new strategic opportunities.

Nonprofit organizations can play a critical supporting role in rural development in the Midwest. There are good examples of such organizations stepping into these roles, yet thus far these do not form a broadly based trend. Regional philanthropies are especially well positioned to support regional development since their footprint often aligns with regional economic geographies. In addition, the founders of such philanthropies often care deeply about the economic future of the places in which they initially created their wealth. The McKnight Foundation, for example, helped launch six regional philanthropies across the state of Minnesota—the Initiative Foundations. Two of these foundations were catalysts in the Southern Minnesota Project. The Nebraska Community Foundation (NCF) has been an ardent supporter of new place-based development and entrepreneurial initiatives in rural Nebraska and has been instrumental in helping marshal equity capital for new businesses (NCF 2006). In general, nonprofit organizations often supply the founding trust, the “glue,” as it were, to help hold regional partnerships together. That said, there seems to be comparatively few examples of this in the rural Midwest.

A new agenda for action

To sum up, the world of rural development has changed profoundly, but the Midwest framework for rural development has not. How can Midwest leaders best change that? Five recommended actions will be critical to progress.

1. The Midwest should unite in a new call for federal action on regional development, an effort founded on the need to transform rural economies through competitive advantage and innovation.

The Midwest is a powerful political bloc in Washington, D.C. Its representatives and senators hold senior positions on the committees that will shape, if not decide, the future of rural and economic development policy. These committees include agriculture, bud-
prioritize investments to align with economic advantage. As another inducement to the creation of such strategies, therefore, the federal government could set aside a pool of economic development funds for just such purposes. However, regions could only tap such funds once a federal body certifies that the region has satisfactorily completed the strategy process. Such an approach promises significant public dividends at a time when the nation is focused on finding a path to sustained economic recovery and restoring fiscal soundness. Indeed, if every region in America had such a list of investment priorities in hand when the recession hit, it would have provided the perfect recipe for the federal stimulus package. Alas, that was not the case!

- **Develop a regional framework for innovation.** A regional framework for innovation is badly needed. To date, innovation policy in Washington has largely been the province of science and technology policy. This is important, but ultimately innovation happens in a regional context, and this argues for regional innovation systems, not “one size fits all.” While federal officials may want to lift up some overarching national objectives (such as advancing renewable energy or mitigating climate change), federal programs need to be designed with regional delivery in mind. This only underscores the need for boosting regional capacity to craft sound strategy.

2. **Leaders in Midwest state governments should join together in a new effort to make the Midwest the most innovative, entrepreneurial place in the world, with a seamless partnership across state lines.**

The Midwest has all the makings to lay claim to being the most innovative, entrepreneurial place in the world. But doing that will take political courage to overcome the “beggar-thy-neighbor” business recruitment battles that now dominate the heartland. The rivalries among Midwest states on big business deals are as fierce as those played out in Big Ten stadiums on autumn Saturdays. A shift to the new paradigm for regional development must, in effect, be a collective decision because no governor is willing to trim his/her recruiting war chest and watch all the deals go to the next state. There is good reason, therefore, to convene a collective discussion of this necessary shift in development strategy. This could be a hallmark initiative of the Midwest Governors Association in concert with the Midwest Council of Governments.

With rural development as the objective, that discussion should focus on three critical initiatives at the state level in the Midwest:

- **Create a Midwest Institute for Regional Development.** In the absence of federal action, the Midwest may want to act on its own. There is ample scope across the twelve Midwest states to capture powerful economies of scale in providing the coaching, tools, and delivery system to help rural regions transform their economies. This could be a joint initiative of Midwest governors and university presidents.

- **Align state development investments with regional priorities.** The era of “one size fits all” is over, so Midwest states must adapt their panoply of development programs to the customized needs of the various regions within their states. The critical need is to allocate state development investments to projects that most advance regional futures. Accordingly, just as federal investments in economic development should be triggered by sound regional strategies, so should state investments. States have their own resources that could be used to support the formation of rural regions and associated strategies. That may ultimately be seen as a federal responsibility, though. What remains far clearer is the need to rethink the whole alphabet soup of state development programs with investments in regional economic futures in mind. One way of simplifying this task would be to adopt the same approach outlined above for federal programs. That is, each state could create a development fund that is triggered only after regions complete a certified development strategy.

- **Invest in innovation and entrepreneurial support.** Much of the innovation agenda, especially on the ground in regions themselves, will likely fall to states. In particular, states will have to give serious attention to how new regional innovation systems can be built. They will also need to focus much more on creating the conditions for optimal entrepreneurial success, including new sources of equity capital. In this regard, the recommendations from a national commission provide a useful road map states could adopt. The commission focused on four things: financial markets, intellectual property, entrepreneurial skills, and dependable infrastructure valued by entrepreneurs.
Past Silos and Smokestacks

IV. An Agenda to Transform the Midwest’s Rural Economy

The shifts must be made at all levels of education, from K-12 to all types of higher education.

- Refocus K-12 education on creating an innovation culture and supplying entrepreneurial skills. Midwest school systems in rural areas are generally regarded as strong, but the focus is more on a twentieth-century economy than a twenty-first. Two steps will pay big dividends. The first step is providing the cornerstone for a more deeply ingrained innovation culture. This includes the heralded efforts to lift up science, technology, and math skills. But it is much broader than that. This step requires giving students broader analytical skills that make them problem solvers and inventors. Some of this is as simple as encouraging new state and Midwest awards for student inventors and innovators. The second is planting early the seeds of future entrepreneurial success. While there is an ongoing debate over whether entrepreneurs are born or made, mounting evidence points to positive results from embedding entrepreneurship in school curricula at an early stage.40

- Take concerted action to establish new innovation “transmissions” for the Midwest’s public universities. The Midwest has great public universities, but they rarely connect with budding rural regions looking for better ways to transform their economies. This calls for creative new mechanisms that can translate the ideas and research language of campus into actionable ideas on the strategic assets of each region. This is a tall order, but there are good models to consider. Toronto’s MaRS Development District is a strong model, especially because of its sharp focus on life science. The Finnish triple helix model would call for closer cooperation among state officials, university officials and researchers, and regional leaders. One pathway to more effective collaboration between universities and regional development initiatives may be through creative new campus institutions specifically created to help coach and facilitate.

3. Education must make fundamental shifts to align with and support new regional development initiatives across the rural Midwest. As with state government, there will be benefits to reaching across state lines.

In many respects, the shift to more knowledge-driven economies in the rural Midwest begins and ends with the sustained support of Midwest educational institutions. They have a huge contribution to make, but most are not yet comfortable in this new role. The shifts must be made at all levels of education, from K-12 to all types of higher education.

- Encourage regions to form across state lines. Functional economic regions are no respecters of county or state lines. Many regions throughout the Midwest will spill across state lines. Some special consideration must be given to this problem. At a minimum, ways for aligning state investments to maximum regional advantage must be found. At the other extreme, ways to share tax revenues across state lines could be imagined. While that remains an unlikely outcome, it will be important for states to approach “transborder” regions with flexibility. RiverLands is encountering all of these challenges. One example is tourism, a vital strategic opportunity to seize the full potential of the region’s incredible scenery. Yet each state has its own tourism promotion authority, and there is no bridge among them. A great starting point would be for Midwest governors to signal collectively their long-term support for cross-border cooperation at the multicounty regional level.

40. As one example of this growing public dialogue, a panel of global leaders at the most recent Davos World Economic Forum made a strong plea for mainstreaming entrepreneurship, beginning in elementary school. The essence of their argument is that entrepreneurial skills can be taught, especially if ingrained at an early age. See the Wall Street Journal story at http://blogs.wsj.com/independentstreet/2009/02/17/teaching-entrepreneurship-in-grade-schools/.
4. Steps must be taken to ensure businesses embrace new regional development initiatives, adopt innovative business models, and have access to the capital they need to seize new opportunities.

Businesses are the real key to success in transforming the rural Midwest economy. They must be at the table, pooling their knowledge on a given region’s best new economic opportunities. Too often, economic development is a discussion among public officials and practitioners. Special attention must be given to inviting businesses to regional dialogue, making this a requirement in public-supported regional development initiatives. These businesses must be able to adopt new business models that the new opportunities may require. They must also be able to tap into equity capital, often the missing link of rural capital markets.

• Create incentives and, if necessary, requirements for business participation in regional development initiatives. Business leaders have critical local knowledge that must be pooled in crafting strategy, and they are the real instruments of any strategy’s implementation. Some minor tax incentives might be considered to entice them to put “skin in the game” and help fund regional development initiatives. It may also make sense to require regions to engage some threshold level of private-sector participation in strategy as a prerequisite for public support.

• Encourage new business models for seizing transformational economic opportunities. In areas like pharmaceutical crops, wind energy, and regionally branded specialty foods, new business models will likely be needed to capitalize on a given region’s economic strengths. The Midwest is too accustomed to the independent farm or factory business model. Many new opportunities may demand collaborative business models such as limited liability corporations, with scores of initial business owners. Thus, Midwest governors and university presidents should join forces to encourage the exploration and adoption of frontier business models. Regions like southern Minnesota have been pioneers in agricultural cooperatives. Still, new bioscience opportunities will likely stretch any existing business models.

• Encourage innovative measures in rural capital markets to ensure rural businesses can tap the capital they need. Financial institutions play an especially important role in the new rural paradigm, as key players in helping craft development strategies and as suppliers of the capital that fuels them. Change is needed on both fronts. Financial institutions have highly valuable information and leadership critical to regional development, but today most are on the sidelines as regions form and strategies are forged. Federal and state regulators, for both commercial banks and the Farm Credit System, should explore ways to encourage institutions to get in the game. If nothing else, these regulators have a bully pulpit and can champion a new era of development beyond the local chamber of commerce. To date, regulators have taken almost no steps to do so. Equity capital looms much larger in an innovation-driven rural economy, but it remains an afterthought across most of the Midwest. Incentives for new equity capital funds to form are needed. Finally, the broad reform of financial and banking regulations that is sure to come after the financial crisis will carry huge implications for the rural Midwest’s economic future. This debate must be informed by the new paradigm for rural development.

5. Nonprofit organizations must provide leadership and support to new rural development initiatives in the Midwest. In some cases they need incentives and encouragement to do so, while in others policymakers should take steps to help create such institutions.

Nonprofit organizations can be catalysts in transforming the rural Midwest, but they are missing in many regions. Regional foundations were critical to the success of southern Minnesota’s development effort, and they have also played a big role in spurring new development in Nebraska. In both of these cases, a long-term challenge is to make sure that philanthropic investments align with regional strategies. In many parts of the rural Midwest, however, key nonprofit organizations may not be present. This presents a dilemma that deserves attention.
• Provide incentives to engage and align philanthropic investment. As noted above, nonprofit organizations can often supply the “glue” that holds a regional partnership together, especially in fragile early stages. Thus, it is in the interest of federal and state development officials to encourage such organizations to step up and provide leadership as new rural regions form across the Midwest. Given that role, special tax incentives might be explored that would entice their participation. In addition, it will be critical to encourage foundations to align future regional investments with the region’s own strategy. This, too, may merit the exploration of some tax incentives.

• Encourage new rural nonprofit organizations to form. Southern Minnesota benefited greatly from the early vision of the McKnight Foundation. Many other Midwest rural places are not nearly so fortunate. Could public policy encourage the creation of more foundations that can play the role of trusted convener and quiet supporter? The history of public policy to encourage the creation of such organizations is very limited. Nevertheless, it probably deserves some attention given the highly uneven philanthropic landscape in the Midwest.

Conclusion

The Midwest needs a new game plan if it wants to prosper in the twenty-first-century economy. Globalization has forever changed the field of play, yet the region plods forward with an old and tattered playbook. Rural areas must partner regionally to compete globally. And they must give up the worn strategy of industrial recruiting in favor of innovative investments in their own distinct economic strengths. This bold new model for economic development is now gaining steam around the world. The encouraging sign is that it is also taking root in the rural Midwest in places like Southern Minnesota. The Midwest has its work cut out for it to help this new development model grow and flourish. Still, it should take heart—the Midwest has always been good at growing things. And its hallmark values of resilience, determination, and hard work will supply the essential fuel for a new century of prosperity. Let the work begin.

About the Authors

Mark Drabenstott is director of the Center for Regional Competitiveness at the Rural Policy Research Institute and chairman of the Organization for Economic Cooperation and Development’s Territorial Development Policy Committee, the premier global forum on regional economic development. Mark grew up on an Indiana farm, earned his PhD in economics at Iowa State University, and was for many years the director of the Federal Reserve’s Center for the Study of Rural America, at the time the nation’s leading center on rural issues. Mark is a recognized global thought leader on regional development and has frequently advised Congress, the World Bank, and other national and global organizations on policy issues. He has worked on economic development programs in several nations around the globe, including two from the Midwest that are included in this report: the Southern Minnesota Regional Competitiveness Project and the RiverLands Economic Advantage Project.

Sean Moore is formerly a research analyst with the RUPRI Center for Regional Competitiveness. Before that he was a research associate with the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City. For the past six years, Sean has been engaged in economic research focused on developing tools to better understand regional competitiveness and helping regions formulate strategies to seize opportunities in the global marketplace. Sean holds a BS in economics and a BA in mathematics from the University of Kansas and is completing his MBA at the University of Missouri-Kansas City. Sean currently resides in Kansas City with his wife, Desiree.
References


Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest

By Mark Drabenstott
With contributions from Sean Moore