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Innovative Regional Partnerships in the Rural Tenth District

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Rural America and its economy are defined by small, isolated, and often fiercely independent communities and businesses. In the 19th century, rural towns represented the nation's frontier, where independence amidst isolation was critical to economic survival. Rural people plowed, mined, and ranched their way to self-sufficiency. In the 20th century, each community found a narrower economic niche to orient its limited resources and compete in a specialized national economy.

Today, the new global economy rewards larger blends of human and physical assets. Urban areas and innovative business clusters have these advantages, and so are widening their economic lead on rural areas. From 1990 to 2000, the top 10 percent of U.S. counties, ranked by employment, income, and population growth, accounted for roughly 75 percent of each of these national assets.[1] Rural, or nonmetro, counties accounted for less than 3 percent of these high-growth counties, despite the fact that roughly two-thirds of all U.S. counties are rural.

Still, rural economic success stories have emerged recently—not stories of individual communities or businesses, but of novel groupings of them. Regional partnerships can turn new economic advantages back toward rural areas, offsetting the twin obstacles of size and remoteness. For example, one regional initiative helped the struggling Farmington, New Mexico, labor market rise to number three among regions generating high-growth entrepreneurs in the 1990s.[2]

New regional groupings can cross traditional boundaries and create new networks that blend complementary assets and shared interests. These groupings can also help rural economies raise their relative scale to compete more effectively against more urbanized areas. Broad regions already exist, often through dated administrative boundaries such as county lines. But the most promising new regions evolve organically—from the landscape and the communities themselves. In short, these new regions combine the unique individual features and shared interests of its people and landscape to create a whole that is greater than the sum of its parts.

Giving birth to regions and nursing them to adolescence require an unusually innovative and compelling partnership. This article describes how effective regional partnerships can help rural areas overcome the disadvantages of size and remoteness. It also explains why

Editor's note: This article is the first in a series that will examine innovative regional partnerships in the Federal Reserve System's Tenth District. Forthcoming articles will explore partnerships that have crossed traditional boundaries to create successful new rural regions.

regional partnerships must be innovative to break down traditional barriers within regions. Forthcoming articles will describe partnerships that have crossed traditional boundaries to create successful new rural regions.

Why regional partnerships are critical to rural areas

Rural areas, by definition, have fewer workers, households, firms, and government services than urban areas. And "nearby" rural communities actually lie country miles away. These twin handicaps of size and remoteness often limit the access of rural places to the resources needed to seize new economic opportunities or confront new challenges.

The rapid pace of globalization has put rural communities in an extremely difficult situation. As the array of world markets grows, so does pressure from entirely new competitors, thus making connections to promising new markets and complementary resources more vital than ever before.

Rural businesses and entrepreneurs often confront higher costs as they go outside their immediate communities to access markets or resources. These higher costs come in two forms. *Direct costs* are likely to be higher because needed resources and products must travel more miles, costing time and money. *Indirect costs* are likely to be higher because coordinating mutual needs among dispersed groups with a shared interest is more difficult. In addition, rural firms are less likely to achieve the scale necessary to secure critical discounts in a cost-competitive world.

In general, such problems reflect the fact that rural places often lack what economists call *agglomeration*. Agglomeration is an advantage that emerges from clusters of people and similar firms in close proximity. In urban areas, the agglomeration of people reduces the average cost of production by offering better infrastructure, a wider array of personal and business services, and larger labor markets.[3] An agglomeration of similar firms reduces the cost of information to those firms, while improving prospects for innovation and worker skill matches.[4] Small and remote rural communities lack agglomeration. Thus, their pools of labor, entrepreneurs, firms, innovation, infrastructure, and financial capital are severely limited. At the same time, rural costs of production are higher. Regional partnerships can help small, remote communities leverage and pool their resources to build agglomerations of people and firms and reduce costs.

Thinking regionally allows rural communities to focus on the natural interdependence of rural communities—an asset that is often overlooked and underappreciated. The benefits of new economic opportunities, such as jobs, income, and wealth, are not contained solely in the local municipality or county. The benefits often spill over into neighboring communities. Rural counties adjacent to metro areas grow significantly faster than more isolated counties, even after controlling for other factors.[5]

Such spillovers are increasingly being recognized as vital to economic growth—indeed, they often drive the success of larger, well-networked metro economies. During the 1990s, metro counties outpaced rural counties in the growth of employment, income, and population.[6] Within rural counties, the strongest growth has occurred in micropolitan counties, the largest rural counties, which contain at least one city of 10,000 to 50,000 inhabitants (Henderson and Weiler). In micro counties, the larger core cities enhance the economic fortunes of towns throughout the county.

Spillovers emerge in a variety of forms. In labor markets, new economic opportunities provide job spillovers, as people commute across city, county, and state lines. Retail and tax spillovers emerge as shoppers cross the same boundaries (Weiler and others). Knowledge spillovers emerge as people interact and share knowledge and innovation (Henderson and Abraham). In short, spillovers allow rural places to reap regional benefits that far outweigh the sum of individual community benefits. In urban areas such increasing returns motivate many collaborative efforts to leverage the greater scale of metrowide projects, such as airports and sewage treatment, to create broader benefits at lower costs (Rappaport).

By taking a broader regional vision, rural communities can leverage their diversity *and* similarity. Economic assets that vary across the rural landscape open different paths to economic prosperity. For example, the economic health of some rural places rests on the farm sector, while in other

rural places it rests on manufacturing, mining, services, or the government sector (Chart 1). Yet the commonly cited strengths of all rural communities—natural settings, less hurried lifestyles, and neighborliness—help distinguish rural initiatives from urban initiatives. Of course, rural partnerships can never match the size and network complexities of cities, but they can reduce many disadvantages while highlighting unique rural strengths.

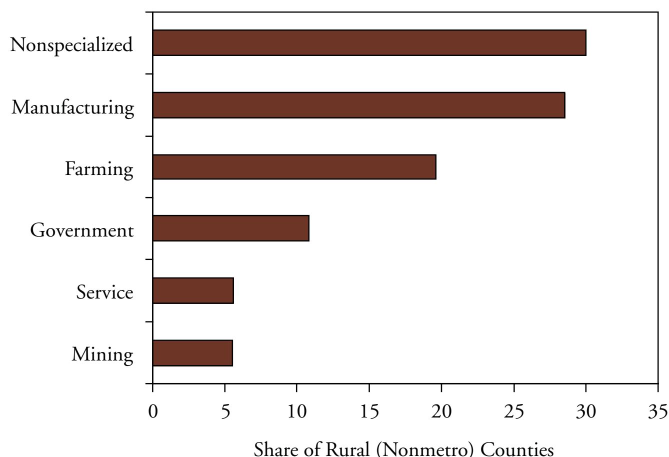
Regional partnerships: The new wave in economic development

Many rural leaders have recognized that forming regional alliances are critical to the success of their communities (Olberding). Given the diversity of issues confronting rural places, innovative partnerships can take a variety of forms. The primary feature of innovative partnerships is that they cross traditional boundaries of networks, institutions, and space.

The spark that ignites innovative regional partnerships comes when neighboring local leaders agree on shared interests. Their partnerships are often issue-driven, developed in response to new laws, constraints, markets, or other changes in the economic landscape (Olberding). The partnerships may form around a new business opportunity, a common economy, a shared natural resource, or a common economic policy (Isserman). A regional vision focusing on supporting a new business opportunity, such as pharmaceutical crops, will differ from a vision focusing on a natural resource, such as a river. Moreover, the regional participants might also differ, as some may link private businesses and higher education institutions, while others may link local governments, philanthropic organizations, and nonprofit economic development organizations. In fact, a single community or business may be part of multiple regional partnerships, with each one focusing on a different strategic concern—from healthcare to education to economic development.

The promise of regional partnerships can break down boundaries between rural communities. Rural stakeholders often confront administrative boundaries such as city, county, or state lines, as well as other spatial boundaries that specify a potentially divisive rather than uniting geography. Institutional boundaries divide public, private,

Chart 1
Economic Dependency of Rural Counties



Source: Economic Research Service, USDA

nonprofit, and philanthropic organizations, creating a barrier to building regional synergies. Most fundamentally, entirely new networks may need to emerge to mesh these diverse interests into a common regional vision.

Perhaps the greatest challenge is to *create new networks* that stem from shared interests. Existing spatial and institutional delineations often divide already diverse groups, blinding them to the benefits of regionalism. New relationships, made through formal or informal networks, can literally supplant these traditional structures and cross canonical geographic and institutional boundaries. In this sense, an innovative rural partnership coalesces around a fresh set of networks that encourages a shared regional vision.

Second, many rural regions must *create partnerships across space.* Regional partnerships overcome the spatial barriers that follow standard city, county, and state lines. For example, industrial recruitment has heightened many economic rivalries between geographic brethren. As cities and states fight for the next manufacturing relocation, the rivalry often carries over into other arenas. In other words, cooperating in a broader region can pay more dividends to communities than acting purely out of self-interest (Ellis and Rogers).

Third, rural regions must *create partnerships across institutions.* Public, private, and nonprofit/ philanthropic organizations all play unique roles in rural regions

(Fluharty). They form the three points of an arrowhead, so to speak, with at least two points cooperating to create a useable tool to be used by all. Each has a different mission statement, a different resource base, and thus a different definition for success. Building bridges across institutional boundaries recognizes that each type of institution brings different abilities, resources, and perspectives to the regional effort.

As partnerships, regional initiatives require that the unique resource of individual communities be valued and appreciated. The benefits of acting regionally must also match the contributions of the individual participants. Partnerships must allow members the flexibility to work together and still act independently in a coordinated fashion. Partnerships must form a sense of shared power, where a new network comes together under a single objective to address a shared problem. Ultimately, by forming a new sense of community or togetherness, rural partnerships can build a new base of popular support—a base that understands the importance of regions, recognizes the need for regional partnerships, and supports the creation of regional leaders that can cross boundaries and champion regional initiatives (Fluharty).

Conclusions

Innovative regional partnerships help highlight the value of regional cooperation and the role that it can play in creating new regional visions. Such partnerships must innovate across traditional spatial, institutional, and networking boundaries, along the way creating a broader sense of shared interests among formerly disparate actors. Each one must also demonstrate the challenges inherent in developing a shared vision.

Today's new challenges create a new view of reality in rural America. Regional views are needed to tackle these new problems, and such efforts will not end neatly at current administrative borders. Finding solutions often calls for greater agglomerations of dispersed resources. Rural policymakers must also consider the utility of new regional frameworks for their local challenges. In particular, they must look beyond traditional spatial, institutional, and networking boundaries to realize the broader opportunities of regional partnerships.

Endnotes

1 Calculations are based on Regional Economic Information System data, Bureau of Economic Analysis, Department of Commerce.

2 The labor market area (LMA) of Farmington, New Mexico, had the third-highest growth company index (GCI) of 198 of all U.S. LMA areas (National Commission on Entrepreneurship, 2001). High-growth companies were defined as companies with annual employment growth exceeding 15 percent per year from 1992 to 1997. Based on Regional Economic Information System data from the Bureau of Economic Analysis, Department of Commerce, the Farmington, New Mexico, LMA, which included San Juan county in New Mexico and Archuleta, La Plata, and San Juan counties in Colorado, grew 6.1 percent annually in terms of income from 1980 to 1990, well behind the 6.4 percent annual growth in other nonmetropolitan Colorado and New Mexico counties. From 1990 to 2000, annual income growth in the Farmington LMA was 7.3 percent and outpaced the 6.2 percent annual growth posted in other nonmetropolitan Colorado and New Mexico counties. See Anesi, Eppich, and Taylor for a description of the San Juan Forum and its impact on the regional economy.

3 See Barkley, Henry, and Bao; Henry, Barkley, and Bao; O'Huallachain and Satterthwaite.

4 See Ellison and Glaeser; Henderson, Kuncoro, and Turner; O'Huallachain and Satterthwaite.

5 Rappaport describes a similar joint destiny between central cities and their neighboring suburbs.

6 Calculations are based on Regional Economic Information System data, Bureau of Economic Analysis, Department of Commerce.

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