

August 2003




The **Main Street** —————
Economist
Commentary on the rural economy



Seizing High-Skill Services in Rural America

Jason Henderson
Economist
Center for the Study of Rural America



Rural America is not immune to the economic transformations sweeping through the U.S. economy. As in the rest of the nation, rural towns are becoming more service oriented. Advances in technology and increased recreational demand are making service-producing industries—producer service, recreation, and consumer service industries—the economic cornerstone of many rural communities. And new service opportunities continue to emerge as more and more firms outsource business service operations.

Despite these broad trends, many rural communities are missing the opportunity to capture high-skill service jobs. In 2000, just a tenth of rural earnings came from high-skill high-wage producer service industries, compared to a fourth in metro areas. Meanwhile, many U.S. firms have continued to bypass rural areas and outsource high-skill business service operations to foreign locations.¹

How can rural areas seize more of these growing opportunities? Recent evidence shows that a small but increasing number of rural places are beginning to capture high-skill service activity by leveraging quality of life amenities, enhancing labor force skills, and expanding the technological capabilities of rural firms.

Why are service-producing industries important?

In the 21st century, service-producing industries are becoming increasingly important to many rural communities. Service-producing industries now account for the largest share of rural jobs and earnings and continue to pace rural job growth. Moreover, the gap between the growth in service-producing and other industries continues to widen.

Service-producing industries cover a broad and diverse set of economic activities. Producer services include communications, financial and insurance, and business/professional service activities.² Recreation services range from eating and drinking places, to hotels, amusement parks, museums, and zoos. Consumer services include retail trade stores and other personal services. Transportation and utilities is another key service-producing category.

Over the past three decades, service-producing industries have emerged as both

the leading employment and leading income generators in rural communities. From 1970 to 2000, the share of rural jobs in these industries has climbed steadily, today accounting for over half of all rural jobs (Chart 1). During the same time, the share of rural earnings from service-producing industries rose from a third in 1970 to almost half in 2000.

During the 1990s, jobs and earnings growth in service-producing industries more than doubled the growth in government and goods-producing sectors—mining, manufacturing, and construction. And the strong growth in service-producing industries has continued through the recent recession and recovery. Service-producing job growth has clearly outpaced the growth of goods-producing jobs despite weaker economic activity overall (Chart 2). As a result, the gap between service-producing and goods-producing job growth continues to widen.

Why is service-producing growth so strong?

Rural economies have become more service-oriented for three reasons. In the face of global competition and recession, rural factories are disappearing from the landscape, leaving the service industry to sustain the rural economy. Advances in information technology have led to a surge in producer service activity. And

rising incomes have spurred tourism and other recreational activities.

As rural factories close their doors, service industries are often the only economic engine left in many rural places. In 2002, almost half of all mass layoffs in rural manufacturing were due to factory closures. While the number of closures has eased, rural factories are struggling to maintain existing job rolls in the wake of stiff foreign competition.

At the same time, advancements in computer and information technology have spurred growth in producer services—communications, financial, and business/professional services. In the 1990s, growth in U.S. gross domestic product was led by producer services, which were paced by the communications industry (Table 1). Rural producer service firms shared in this growth as earnings rose a strong 3.9 percent per year.

In addition, burgeoning recreational activity has energized the U.S. service-producing sector. During the unprecedented economic boom of the 1990s, many Americans spent a rising portion of their additional income and wealth on recreational activity. Gross domestic product growth in recreational industries in the decade rose 4.7 percent annually, and rural areas led the charge with many rural recreational industries posting slightly stronger earnings growth than in metro areas.

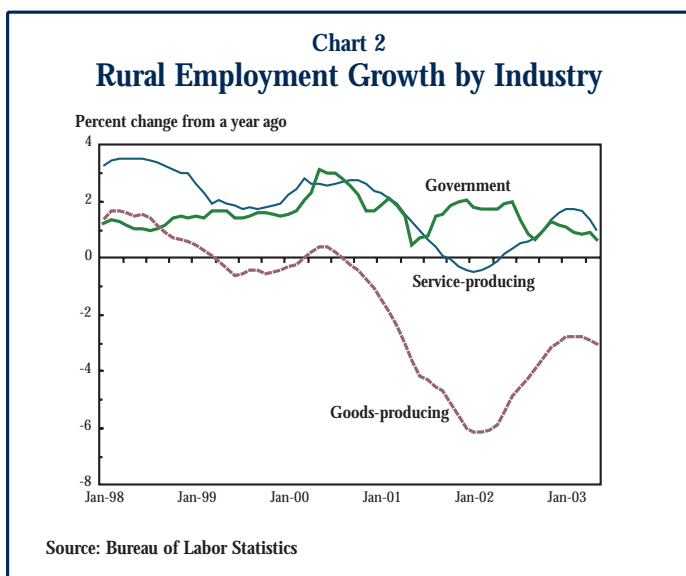
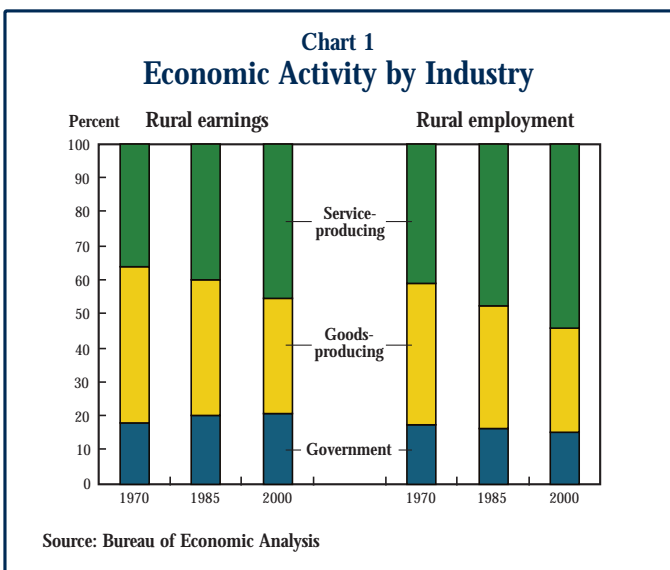
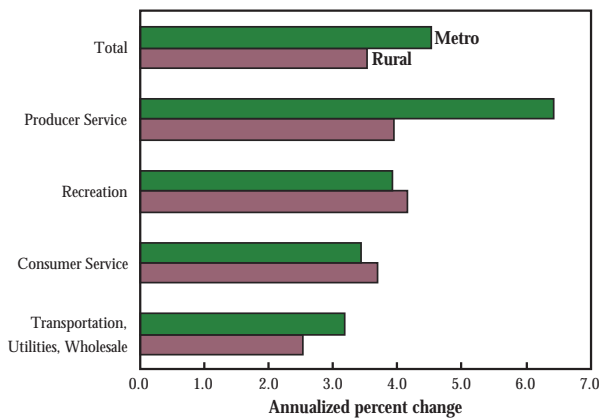


Chart 3
Service-Producing Earnings Growth, 1990 to 2000



Source: Bureau of Economic Analysis

Are rural areas capturing high-skill, high-wage service activity?

The growing importance of service-producing industries to rural communities is unmistakable. However, rural places continue to lag behind their metro counterparts in capturing the best slice of the service sector—high-skill, high-wage jobs. Indeed, the lagging performance of service growth in rural areas is driven primarily by slower growth in high-wage jobs.

During the 1990s, rural earnings from

service-producing industries rose a strong 3.5 percent per year but still trailed growth in metro areas. (Chart 3). Service-producing industries accounted for roughly two-thirds of metro earnings compared to only half of rural earnings.

Rural areas trail their metro counterparts in services growth largely because of their weak performance in high-skill service activity. Producer service industries offer more high-skill opportunities than any other service-producing industry (Table 1). In 2000, U.S.

producer service industries employed over a third of their workers in high-skill occupations. Consumer service industries employed roughly one-fourth of their workers in high-skill occupations. Recreation industries employed less than one-tenth of their workers in high-skill occupations.

Put simply, the relative lack of producer services is largely responsible for the lagging earnings growth of the rural service sector. Earnings growth in high-skill rural producer service industries rose a strong 3.9 percent in

the 1990s but lagged the growth posted by their metro counterparts. As a result, producer service industries accounted for only 9 percent of rural earnings compared to 25 percent of metro earnings. In contrast, rural earnings growth in recreation and consumer services outpaced the growth in metro areas. And recreation and consumer services accounted for a slightly larger share of rural earnings than metro earnings.

Can rural places attract high-skill industries?

Although rural places have become more service-oriented, they often struggle to capture high-skill high-wage producer service activity for a simple reason—they are small and remote. Despite these challenges, some rural communities have been able to use scenic and quality of life amenities to attract producer service firms that serve nonlocal markets. But even communities that lack an abundance of amenities have been able to stimulate high-wage service activity by focusing on improving the skills of the regional labor force and enhancing the technological capabilities of rural firms.

Rural communities with abundant scenic amenities or quality of life amenities typically have an easier path to attracting high-skill service workers and capturing

Table 1: The Service-Producing Industry Statistics

	<i>GDP Growth (1990s)</i>	<i>Annual Avg Wage</i>	<i>% Skilled Occupations</i>	<i>Earnings Growth (1990s)</i>		<i>Earnings Share (2000)</i>	
	<i>(Percent annualized)</i>	<i>(Thousand \$)</i>	<i>(Percent of Jobs)</i>	<i>Rural</i>	<i>Metro</i>	<i>Rural</i>	<i>Metro</i>
				<i>(Percent annualized)</i>		<i>(Percent)</i>	
Total Service-Producing	4.32	31.7	24.7	3.52	4.51	45.3	62.5
Producer Services ¹	4.89	39.7	36.6	3.93	6.41	9.0	25.3
Communications	6.33	44.5	37.3	2.64	6.21	1.0	2.3
Finance and insurance	4.83	42.6	36.3	3.24	6.18	2.9	8.2
Business/professional	4.50	37.9	36.5	4.63	6.58	5.1	14.8
Recreation ¹	4.74	18.9	8.3	4.14	3.92	4.2	4.4
Eating and drinking places	2.12	16.6	4.8	3.22	3.32	2.2	2.0
Hotels and other lodging	2.17	20.5	7.0	4.15	3.65	1.1	0.8
Amusement and recreation services	3.52	25.2	20.3	6.71	4.91	0.9	1.5
Museums, galleries, and botanical/zoological gardens	4.97	27.4	33.7	6.43	5.79	0.0	0.0
Consumer Services ¹	3.25	30.0	26.4	3.67	3.42	22.8	21.6
Retail trade	4.18	23.1	6.1	2.23	2.68	8.0	6.5
Services excluding business/recreation	1.71	33.5	36.5	4.56	3.75	14.8	15.1
Transportation, Utilities, & Wholesale	2.96	36.6	13.4	2.52	3.16	9.3	11.1
Goods-Producing	3.27	34.9	16.1	1.60	2.09	30.8	22.4
Manufacturing	3.70	34.8	18.9	1.47	1.48	21.2	15.2
Other	2.30	35.1	10.1	1.89	3.52	9.7	7.2

¹ Based on USDA classifications

high-wage producer service activity. Because demand for high-skill workers has been so strong, high-skill workers can be more selective in the places they choose to live. Many are basing their choices on quality of life issues. Maybe more important, their higher income levels make quality of life goods more affordable and thus more important in their location choices. While most rural places lag behind metro areas in offering easy access to medical care, restaurants, and shopping centers, scenic communities can provide a quieter, more tranquil quality of life. For example, rural producer service firms in the Rocky Mountains account for a higher share of earnings than in other rural communities (Map).

Some rural places with quality of life amenities have been able to attract producer service firms that service nonlocal markets. While the presence of quality of life amenities can help attract individual high-skill workers or firms, the challenge for communities is to leverage these amenities into larger economic gains. One way they have been able to do this is by attracting “lone eagles” and “high flyers”—single and multiple person producer service firms, respectively—that receive more than 40 percent of their revenue outside the local market.

In a USDA survey of lone eagles and high flyers, about 70 percent reported that their rural business location was driven by quality of life issues.⁴ Owners were more

likely to cite a peaceful and friendly atmosphere or a mountain landscape than traditional low-cost advantages as the reason for locating their firm in a rural place. A testing laboratory cited “slower pace/quality of life” as the primary reason for moving to Vermont from New York. A computer service firm moved to the shores of Maine to be near the ocean. The mountain views attracted an accounting service firm to Colorado. Still, lone eagles and high flyers are a small percentage of rural service activity.

But what about rural places without mountains or other scenic amenities? While they may start out at a disadvantage in attracting high-skill workers, some rural places have focused on growing their own high-skill workers. By improving labor force skills and upgrading the technological skill needs of existing businesses, some rural communities are striving to create their own high-skill service jobs and the labor pools needed to fill them. Small inroads have been made. USDA research indicates that rural establishments upgrade technological skills at the same rate as urban establishments. Upgrading the need for high-skill workers in existing industries is the primary driver of rural high-skill job growth.

In many instances, community colleges and regional universities are the primary catalysts that improve labor force skills and move rural businesses up the technology ladder. In addition to providing post-secondary education and technical training, colleges and universities also play a vital role in technology transfer and skill development for the regional business community. These institutions also often provide some quality of life amenities, such as sporting events, theatrical productions, libraries, and a concentration of high-skill people.

In northeast Minnesota, Hibbing Community College is playing a vital role in helping the region capture high-skill producer service jobs. As the mining and manufacturing sectors shrink, technology has emerged as a potential economic diversification strategy for the region. But, a critical challenge has been the level of technical skills of the local workers because technology industries require superior telecommunications infrastructure and a highly skilled workforce. By customizing information technology training for workers, promoting life-long learning, and helping bridge the “digital divide,” Hibbing Community College has helped the region become home to multiple information and data processing (back office) operations for major corporations.⁵

Advances in technology, increased recreational demand, and factory closures are all transforming the rural economy into a service-based economy. Rural communities have had difficulty generating high-skilled service activity that is pacing tomorrow's economy. But by leveraging quality of life amenities and upgrading the skill level of local businesses and the labor force, some rural communities are beginning to capture high-skill service industries and the high-wage jobs they provide.

Endnotes

¹Karamouzian, Frances. “A Look at India for Offshore Sourcing Options,” July 2003, Gartner, Inc.

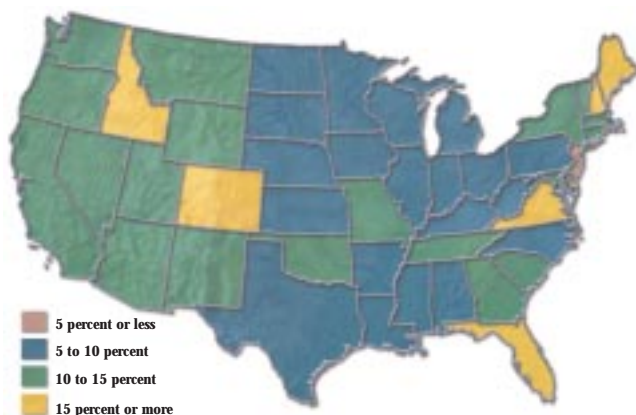
²Prior to 2003, industries were defined by the Standard Industrial Classification (SIC) codes. Today, industries are classified according to the North American Industrial Classification System (NAICS).

³The Department of Commerce measures the level of difficulty and complexity in various occupations on a fifteen point leveling scale. The levels are based on factors that include knowledge, supervision, complexity, physical demands, and work environment. Executives, professional, and technical occupations rate higher on the leveling skill scale than food or personal service occupations.

⁴Beyers, William B. and David P. Lindahl, “Lone Eagles and High Flyers in Rural Producer Services,” *Rural Development Perspectives*, vol. 11, no. 3, pp. 2-10.

⁵“Cultivating Successful Rural Economies: Benchmark Practices at Community and Technical Colleges,” Regional Technology Strategies, Inc. www.rtsinc.org.

Producer Services Share of 2000 Rural Earnings



Calculations based on Bureau of Economic Analysis data