

**Remarks of Erik R. Pages
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**Before the U.S. House of Representatives
Transportation and Infrastructure Subcommittee
on Economic Development, Public Buildings
and Emergency Management**

**“The State of Economic Development”
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Madam Chair, Members of the Subcommittee, Thank you for inviting me to appear before you today. My name is Erik R. Pages, and I presently serve as President of EntreWorks Consulting, an economic development consulting firm based in Arlington, Virginia. I appear before you today to offer my perspective on the state of economic development, and the appropriate role of the federal government in supporting this critical mission. I hope that my comments will offer a unique perspective on this important topic. I have been involved in the field of economic development for more than twenty years, and have worked in a variety of settings. EntreWorks Consulting has worked with customers in twenty-eight states across the US. I have also worked on these issues while serving in positions at the US Economic Development Administration and as a staff member here in the US House of Representatives. In all of these settings, I have seen how Federal interest and investments can help catalyze regional economic development and transform communities.

My remarks today will focus on the Federal role in supporting economic development in rural America. My comments reflect my own experience working

in rural regions, but also include insights from my colleagues at the RUPRI Center for Rural Entrepreneurship, where I serve as a Senior Fellow.

Rural America's Economic Development Challenges and Opportunities

As Subcommittee members certainly know, rural America faces a profound set of economic development challenges. The last few decades have seen an unprecedented flowering of wealth, innovation and entrepreneurship in the American economy. While there are some pockets of good news, much of this prosperity has bypassed rural America. Recent research shows that only 10% of American counties accounted for $\frac{3}{4}$ of the nation's job growth between 1993 and 2003.¹ Of those 310 high-growth counties, only eight are rural.

Rural regions also lag in their ability to generate new innovations and high growth entrepreneurial companies. These communities have large numbers of sole proprietors, but lag metro areas in terms of creating world-class companies that grow fast and generate major new innovations in products, services and technologies.² This small group of fast-growing firms creates the majority of new jobs and is the real engines of economic prosperity.

The basic contours of the rural economic story have been well covered in the press and in various studies. First, the key anchors of the rural economy—manufacturing, mining, and agriculture—have suffered declines in recent decades. These sectors have enjoyed productivity improvements, but technological change and offshoring have had the effect of reducing jobs here at home.

As economic anchors have crumbled, other community institutions have also been challenged. Leading institutions such as local banks, hospitals, and telecommunications providers have all been swept up in waves of consolidation. These institutions served as community anchors, often providing the people and the talent to lead community economic development work. Thus, the loss of a local bank or hospital is not just an economic loss. It contributes to a further erosion of civic leadership and capacity.

These trends coalesce and contribute to the continued brain drain, i.e. the exodus of talented young people who depart rural communities for better job and

¹ Mark Drabenstott and Jason Henderson, "A New Rural Economy: A New Role for Public Policy," *The Main Street Economist*, Federal Reserve Bank of Kansas City. (Vol.1, Issue IV, 2006).

² Sarah Low, "Regional Asset Indicators: Entrepreneurial Breadth and Depth," *The Main Street Economist*, Federal Reserve Bank of Kansas City. (September 2004).

career opportunities in cities and suburban communities. Young people continue to form the largest cohort of individuals who migrate away from rural communities.

But not all of the news is bad. In fact, many rural regions appear to be on something of a comeback. While it is too early to “declare victory,” some positive signs include the following:

- Population loss in rural communities appears to be slowing. Indeed, there appears to be something of a reverse migration occurring. For example, almost 71% of rural counties gained population during the 1990s.³
- Many rural communities are poised to succeed in emerging sectors such as biofuels, recreation, alternative energy, and niche and organic agriculture.
- Rural communities still retain many competitive advantages, such as lower housing costs and strong quality of life that appear to be assuming greater importance in the location decisions of many entrepreneurs, workers, and their families.

When we look at the rural economy, the bottom line is this: we face many significant challenges, but we also face a tremendous opportunity to improve the quality of life and to stimulate prosperity for millions of Americans who reside in small towns and rural communities.

The Way Ahead for Rural America

There is no one-size-fits-all solution for promoting economic development in rural America. In fact, it's pretty hard to develop a single monolithic definition of “rural America.” After all, Jackson Hole, Wyoming, the Pine Ridge Indian Reservation, the Mississippi Delta, and the Iowa cornfields are all rural, yet they face widely differing economic, political and cultural circumstances.

So each community's solutions will be unique. But, they will share some common themes. First, solutions must be locally derived and locally driven. Local residents must be engaged in the process of designing and implementing new approaches to community transformation.

Second, solutions must focus on community transformation. Transforming a rural community will not occur via a single project or a new facility. This effort requires a holistic, comprehensive and long-term commitment to building a

³ Kenneth Johnson, “Demographic Trends in Rural America.” Carsey Institute Reports on Rural America. Vol. 1, No. 1. University of New Hampshire, 2006.

vibrant and livable community. Comprehensive solutions must include traditional economic development approaches, such as the development of infrastructure (such as broadband deployment or new water and sewer facilities) along with efforts to engage youth and develop civic leadership. And, new ideas do not always need to come from professional economic developers or elected officials. We need to engage a wider network of participants in this discussion. Social service providers, non-profits, educators, and average citizens must all be engaged in developing new ideas for rural development.

Third, solutions should seek to foster a spirit of innovation and entrepreneurship. Our objective must be not to simply create jobs, but to build a base for rural prosperity. Building prosperity requires that we support rural entrepreneurs who are seeking to build world-class businesses that will succeed in the global marketplace. These home-grown businesses are more likely to remain in the community, providing business leadership and generating wealth for the surrounding region.

Finally, proposed solutions must recognize the importance of regional approaches to economic development. While local grass-roots commitment is needed, this does not mean that each community must design its own unique economic development strategy. Cities and counties can no longer go it alone in terms of competing in the global economy. They need to compete as part of a larger region that can develop the scale, assets, and economic diversity needed to build prosperity.

Where Does the Federal Government Fit In?

No rural economic development strategy can be successful without strong, innovative grassroots leadership. Local leaders are the ones who must recognize the need for change and build partnerships that bring creativity and innovation to the heartland. However, given the challenges faced by most rural communities and regions, they need the federal government as a strong partner, investing in innovative and creative new strategies that are taking root in rural places.

Congress needs to assume a prominent leadership role in this effort. The past decade has witnessed a serious erosion of the federal government's ability to support innovative local economic development strategies. We must reverse these patterns and begin making real and sustained investments that help empower local communities. Specifically, the Subcommittee should consider the following recommendations:

- 1) Support Federal Investments in Economic Development
- 2) Support New Rural Development Strategies via the Farm Bill

- 3) Promote Regional Approaches
- 4) Support Open Immigration Policies
- 5) Expand Energy R&D Spending
- 6) Invest in Broadband Infrastructure

Let me now address each of these recommendations in greater detail:

1) Support Federal Investments in Economic Development

Many key federal agencies, such as the Economic Development Administration (EDA) and the Small Business Administration (SBA), have faced a decade of budget cutting. The Committee should reverse this trend and renew the Congress' commitment to these critical programs. The Committee should support efforts to maintain EDA's budget at the current level of \$284 million and perhaps even support an expansion of EDA spending in Fiscal Year 2008. Committee members should also support legislation that seeks to expand Federal investments in science, technology, and math (STEM) education. Finally, many critical SBA programs, such as the Small Business Development Centers and the Microloan program, provide invaluable help to rural entrepreneurs. These laudable initiatives should be expanded.

2) Support New Rural Development Strategies via the Farm Bill

Congress is now in the midst of reauthorizing the Farm Bill. This effort offers one of the best opportunities to support innovative approaches to rural development. Committee members should support creation of a new Rural Strategic Investment Program at the US Department of Agriculture. This program would provide support for the development of new regional rural development strategies and partnership across regions and sectors. Other initiatives worth consideration include proposals to enhance support for rural microenterprise and to create new individual development accounts (IDAs) targeted to residents of distressed rural regions.

3) Promote Regional Approaches

As noted above, regions are the key building blocks of a competitive economy. Subcommittee members should support approaches that encourage rural communities to collaborate at the regional level. This support can take several forms. First, all existing and new program investments should include incentives for the development of regional strategies. The Department of Labor's WIRED (Workforce Innovation in Regional Economic Development) offers one good example of efforts to promote regional approaches. EDA's Economic Development District (EDD) program also promotes a regional approach via

support for the creation of Comprehensive Economic Development Strategies (CEDs).

Second, the Committee should further explore various proposals to create new regional development authorities (RDAs), based on the model of the Appalachian Regional Commission (ARC). Since its founding in the 1960s, the ARC has played a central role in alleviating poverty and economic distress in Appalachia. This success has spawned the creation of other RDAs such as the Delta Authority and the Denali Commission. More recently, Representative Michaud has proposed the creation of the Northeast Regional Economic Development Commission, and other Members have proposed RDAs for distressed regions of the Southeast and the Southwest Border region.

These RDAs make sense if they meet several criteria. They must serve areas of contiguous and consistent economic distress. Also, they must include creation of a strong staff capacity along with a relatively powerful role for the Federal co-chair. An effective RDA seeks to promote innovative approaches to regional development, and a strong staff capacity helps ensure that new ideas and creativity are introduced into the process. RDAs should not simply serve as another means for transferring Federal resources to state control. Successful RDAs are based on a real partnership between federal, state, and local officials.

4) Support Open Immigration Policies

The move of new immigrants to rural America is one of the bright spots on the rural economic landscape. In particular, more Latinos are moving to rural towns, especially in the Southeast and the Midwest. During the 1990s, Hispanics accounted for ¼ of job growth in rural America.⁴ In some states, the demographic shift has been quite profound. For example, North Carolina's Hispanic population grew by 394% over the course of the 1990s. Forty-five percent of these new immigrants reside in rural counties. While this influx of new residents has created some challenges (such as school overcrowding), their predominant impact is positive. These new immigrants are starting exciting entrepreneurial ventures that will help strengthen rural economies.

5) Expand Energy Research and Development Spending

From a national policy perspective, it makes great sense to expand investments in alternative energy research such as biomass and hydrogen. These investments will also have a positive effect on rural communities who are well situated to benefit from such investments.

⁴ Leif Jensen, "New Immigrant Settlements in Rural America," Carsey Institute Reports on Rural America. Vol. 1, No. 3. University of New Hampshire, 2006.

6) *Invest in Broadband Infrastructure*

Because they must often operate with substandard digital infrastructure, many rural businesses and entrepreneurs are competing as if they have one arm tied behind their backs. Congress should support efforts to invest in rural broadband infrastructure through existing programs at the EDA, the Department of Agriculture, and so on. Congress should also consider more expansive financing approaches such as the American Heartland Development Bank,⁵ a \$10 billion development bank devoted to investing in a host of infrastructure projects across rural America.

Madam Chair and Members of the Subcommittee, thank you for the opportunity to share my views with you today. I look forward to your questions and, if you need additional materials and information, I would be happy to provide them to the Subcommittee.

⁵ This concept has been proposed in Joel Kotkin and Delore Zimmerman. *Rebuilding America's Economy: A Heartland Development Strategy*. Washington, DC: New America Foundation, 2006.