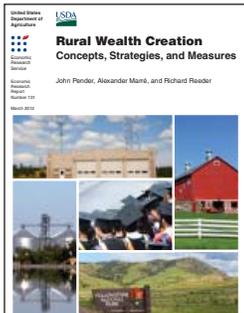


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Rural Wealth Creation Concepts, Strategies, and Measures

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What Is the Issue?

Rural development researchers and practitioners have argued in recent years that investing in a broad range of assets is a critical component of long-term economic growth in rural communities. Wealth can contribute to people's welfare in many ways beyond increasing income, such as providing economic resilience in adverse circumstances or enhancing one's power and prestige. Given the importance of wealth for economic well-being, understanding how wealth is distributed is critical. The marketable wealth of households in the United States is more unequally distributed than income. Understanding the distribution of wealth across and within rural communities is also critical. Despite its importance, efforts to conceptualize and measure rural wealth creation have been limited.

What Did the Study Find?

Although many Federal and State programs are concerned with wealth creation, this report's focus is on local and regional approaches suited to the diverse situations facing rural communities. Traditional strategies—such as those based on exploiting natural resources, recruiting foot-loose industries, developing as regional centers or as bedroom communities, or amenity-based development—are suitable in particular contexts. Less traditional strategies—such as promoting entrepreneurship and innovation, industry clusters, and attracting the creative class—are aimed at attaining a comparative advantage in today's knowledge-based economy.

No wealth creation strategy will work in all contexts; therefore, rural regions and communities would benefit from having the capacity to identify strategies that are best suited to their own wealth endowments and local priorities. Approaches to strategy formulation and implementation include community strategic planning and research-based targeted industrial development.

This report presents a conceptual framework for wealth creation, drawing upon the U.S. and international rural development literature. The framework emphasizes multiple types of assets (physical, financial, human, intellectual, natural, social, political, and cultural capital) and the economic, institutional, and policy context in which rural wealth strategies are devised. For example, manufacturers in high-poverty outmigration rural counties often cite the poor quality of local schools as one of the most critical constraints that they face in recruiting and retaining managers and other professionals. Hence, investments in improving the quality of local schools and their staff (physical and human capital) may be a prerequisite for a strategy focusing on attracting manufacturing firms.

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Rural wealth creation is highly context-dependent. For example, policies to promote biofuel production have created wealth in communities with fertile farmland, adequate water supplies and transportation infrastructure, and an entrepreneurial class of farmers or other investors capable of organizing and managing such investments. Where these factors are absent, efforts to promote biofuel production may be unsound and could deplete local wealth.

Different types of capital are often complementary. Investing in one type of capital can increase the returns to investing in another. As such, planning and coordinating across a range of investments is more likely to result in long-term success of rural development efforts.

Investments always involve economic risks, and diversifying the portfolio of investments may help to reduce such risks. Broader diversification of the local economy into activities that are not highly dependent on the same market trends, resource base, and government policies may more effectively address risks associated with changes in any of these economic drivers.

Local ownership can contribute to increased local returns from investments, but involves risks. Locally owned businesses are often thought to provide greater local economic benefits than absentee-owned businesses due to dividends earned by local owners and a tendency for locally owned businesses to hire from the local labor force. However, the increased returns associated with local ownership may be associated with greater risks than diversified investing in non-locally based assets.

It is important to consider the multiple types of outcomes that can result from any investment, such as environmental and social impacts. For example, increased local tax collections resulting from new business development may enable public investments in local roads, schools, or other infrastructure, which can spur future wealth creation. On the other hand, negative environmental impacts such as depletion of local groundwater supplies may impair a community's ability to attract or retain residents.

Strategies to promote rural wealth creation face numerous challenges, as well as offering the potential to contribute to sustainable and broadly shared rural prosperity. The report discusses several traditional (industrial recruitment, regional centers, bedroom communities, amenity-based development) and non-traditional (small business growth and entrepreneurship, cluster-based development, rural innovation and knowledge-based development, and attracting the creative class) strategies, how they can contribute to wealth creation, and the contexts where they may be well suited.

The report also discusses why and how wealth indicators can be measured. To diagnose problems and identify and target interventions, we consider approaches to measuring comprehensive wealth using an aggregate monetary value. Considering the stringent assumptions and data requirements of this approach, we conclude that a more practical approach for measuring rural wealth is to measure a set of wealth indicators. We review the few prior efforts that exist to measure wealth indicators in rural areas of the United States, and then provide information on additional indicators of different wealth types and data sources that could be used for this purpose.

To help improve the design and monitoring of interventions, various methods can be used to clarify the logic of the intervention and its hypothesized outcomes and impacts. We discuss the use of impact pathway evaluation as one method for this, and illustrate how this approach could be applied to derive wealth and other indicators for a few example rural development interventions. To assess the impacts of interventions, we discuss how measuring wealth indicators could help in addressing attribution problems.

Measuring wealth creation and its outcomes also creates many challenges, including the difficulty of conceptualizing and measuring intangible and nonmarketed wealth, the cost of measuring a broad array of wealth indicators, difficulties in evaluating outcomes along multiple dimensions, and challenges in how to scale up the knowledge gained from assessment efforts in different contexts.