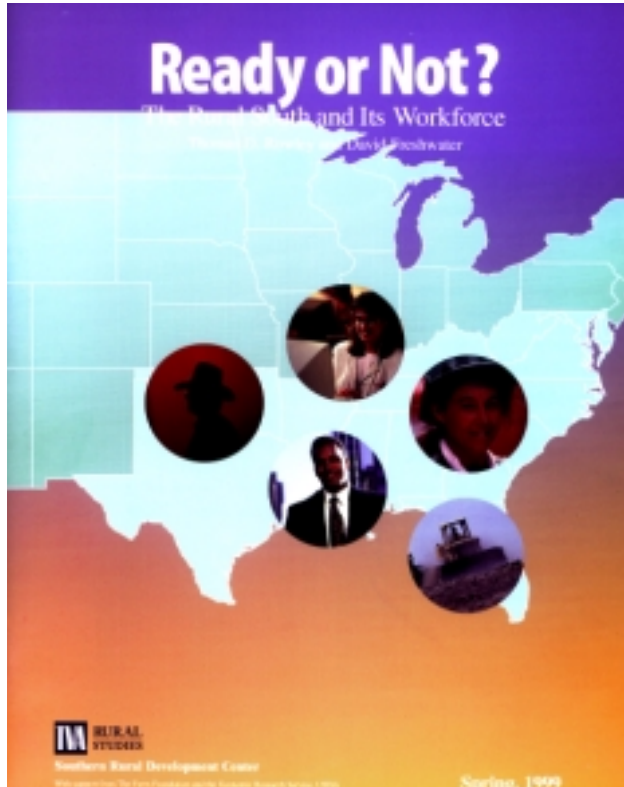


Ready or Not?

The Rural South and Its Workforce



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Basic Realities

- "Unless people are independently wealthy, they are going to work, they're going on welfare or they're going to steal. There are no other alternatives."
- Bill Posey, Florida State Legislator (R)

- "If companies around the globe can now buy foolproof machinery to compensate for deficient worker skills, and if people in other countries using this machinery will work for \$5 a day, not the \$10 or \$15 an hour that American workers want, we cannot compete on the basis of wage - we can compete only on the basis of skill."
- Ted Hershberg

- “Globalization has local consequences. The new global economy lifts up some places and leaves some behind. It is lifting up in particular a group of cities, several in the South, ignited by a potent mix of technology-laced industries, high quality universities, and new-ideas people. These new-economy cities now serve as the booster rockets of the South’s economic rise.
- Meantime, the long-standing urban/rural divide has shifted. Some rural communities, particularly along the coasts or near major metropolitan areas, have experienced an economic rebirth. But many other rural communities, not well connected to the new economy, have fallen further behind.”
- MDC Inc.

The Old and New Rural Economic Environment

- **The Old Rural Environment**

- External markets are important.
- Natural resource based industries are the focus of government development policy for rural areas..
- Place specific natural resource endowments are important in the local and global economy and dictate economic function - arable land, mineral deposits, etc.
- Individual rural places are somewhat specialized, but many rural places are similar in function and character.

- **The New Rural Environment**

- External markets are important.
- Natural resource based industries are the focus of government development policy for rural areas.
- Place specific natural resource endowments are not very important to the global economy, while knowledge and skills are the main determinants of success.
- Individual rural places are specialized, with relatively few rural places being very similar in function or character.

The Old and New Rural Economic Environment

- **The Old Rural Environment**

- Rural residents have lower levels of formal education and more limited employment opportunities than urban residents.
- Urban labor markets can readily absorb surplus low-skill rural labor .
- Transport costs are high, decreasing the size of markets and limiting trade.
- Capital markets are segmented making rural places reliant upon their internal pool of capital.

- **The New Rural Environment**

- Rural residents have lower levels of formal education and more limited employment opportunities than urban residents.
- Urban labor markets are unable to absorb surplus low-skill rural labor .
- Transport costs are low, allowing a single plant to serve continental or global markets and expanding trade.
- Capital markets are considerably less segmented so rural areas have to compete within a global pool of capital.

The Old and New Rural Economic Environment

- **The Old Rural Environment**
 - Communication is expensive and relatively slow, limiting coordination.
 - The product/service cycle starts in urban centers and diffuses to rural locations in the same nation.
 - Rural areas within a nation compete amongst each other .
- **The New Rural Environment**
 - Communication is cheap and fast, making coordination easy.
 - The product/service cycle starts in urban centers and may diffuse to rural locations, but it may jump across national boundaries to less developed places.
 - Rural areas within a nation compete amongst each other and with rural areas in other developed nations, but also the less developed world.

Implications for rural places

- Resource based activities will not provide a lot of employment opportunity.
- Rural places in developed nations are in direct competition with all other rural places.
- Knowledge and other forms of human capital will play a big role in future development success.

Implications for rural places

- Rural places have to determine if they will compete with the developing world (cost minimization), or the urban industrial world (higher quality, differentiated products).
- Rural areas may not be able to attract a lot of higher end services, so they need a different strategy.
- Most new capital investment is taking place in areas with higher qualified workers.

Why employment is an important rural development issue.

- Without access to jobs, rural communities are not sustainable.
- In the past the South packaged a problem (a high share of the labor force with low skills and little education) into a virtue (a low wage, hard-working labor force), but the times have changed.
- Welfare reform places a greater burden on individuals to find a job.
- Work is the way people define both their own social place and the place of others in our society.

Why employment is an important rural development issue

- Many southern rural regions lack a tradition of entrepreneurial behavior that now impedes their ability to generate employment locally.
- Trade barriers once protected rural areas, but now the interests of urban places demand more open borders.
- Poverty is no longer a “southern problem” in the sense that it characterizes the south, but it remains a major problem in specific parts of the south.

Why employment is an important rural development issue.

- Important precursors for entrepreneurial activity are: level of education, level of wealth, and prior work experience. For much of the rural south large percentages of the population lack all three characteristics.
- A significant problem is the large number of workers who are older than 40 and who have low levels of formal skill. These individuals when they lose a job have a hard time finding a new one, even if they obtain additional training.

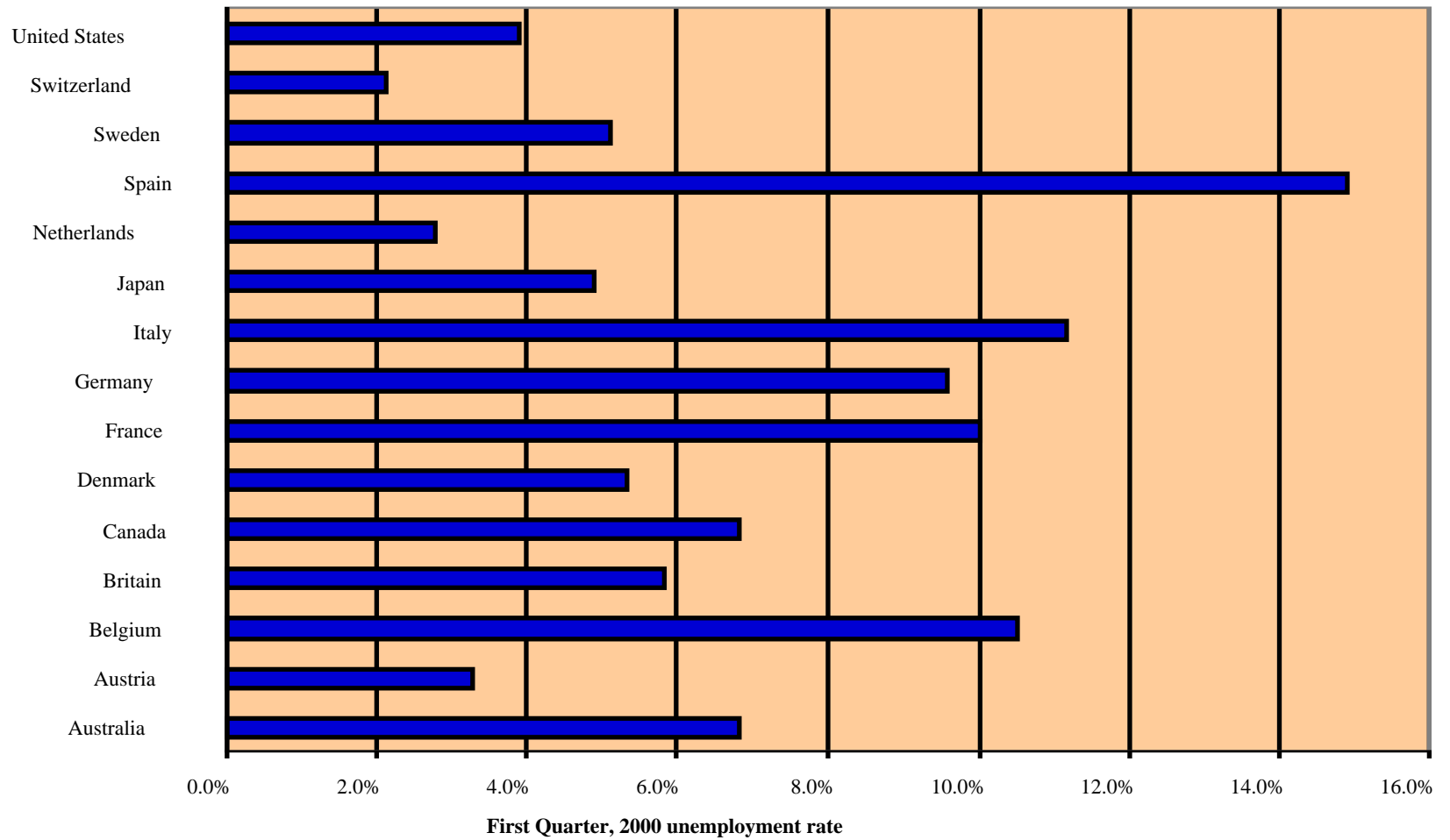
Why employment is an important rural development issue.

- Employment opportunities are changing more rapidly than is the existing capacity of the rural labor force.
- The result is a high level of structural unemployment that does not seem to respond to market signals.

Convergence

- If convergence takes place - people and capital move to equilibrate returns across regions making unemployment problems short term in nature - so market forces alone resolve them and there is no need for government policy.
- But, convergence does not appear to be occurring either across nations, or among regions within a given nation.

Figure 1: National Unemployment Rates



Convergence

- More perplexingly, within countries stable and significant differences among unemployment rates exist that do not seem to respond to enhanced flows of capital and better linkages among regions. These differences persist even though there are no meaningful barriers to the movement of goods, capital or labor.

Figure 2: U.S. and Kentucky Unemployment Rates

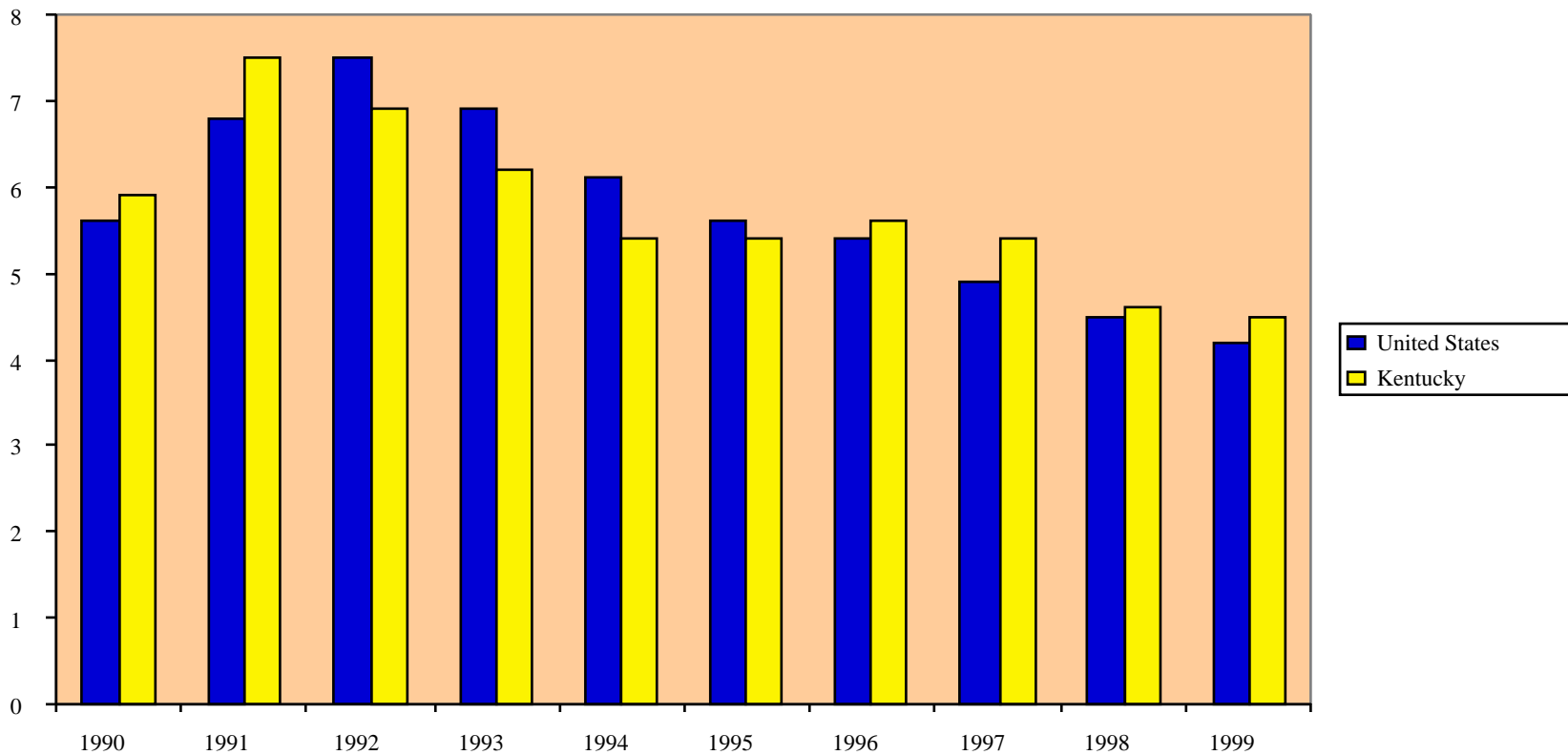
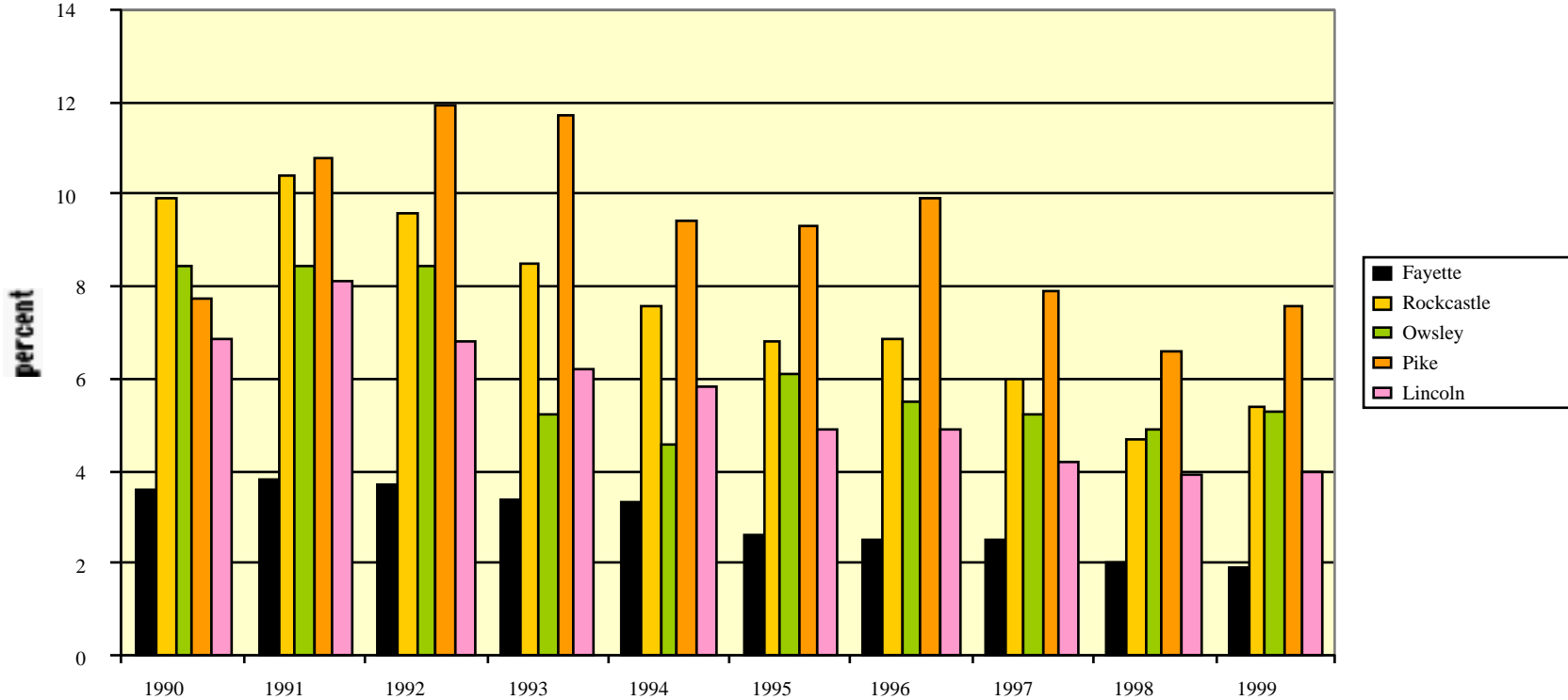


Figure 3: Selected County Unemployment Rates



Convergence

- The evidence suggests convergence cannot be relied upon to solve regional differences in employment levels.
- For most workers the relevant labor market is local. Only employment opportunities in close proximity to home are considered. But as skill levels increase, so does the size of the relevant labor market.

Why a focus on employment is important for government policy.

- Rural outmigration helped in the past, but it is not as effective today.
- Without large scale outmigration there is no alternative to “moving jobs to people”.
- In less developed areas this probably means importing low-wage, low-skill firms from outside the region. In more developed areas it may involve fostering local SMEs.

Why a focus on employment is important for government policy.

- Rural policy in the past has not focused directly on employment. Instead, rural policy has mainly been concerned with particular sectors, or particular places, not people.
- We assumed helping a specific sector, or improving the infrastructure of a particular community, would expand employment.

What types of policy are more likely to enhance employment?

- Rural employment policy has to be market oriented to be successful. It should be oriented to removing structural barriers in local labor markets.
- Policy has to balance national and local interests, especially the growing national concern with preserving cultural traditions and the environment, that can constrain better standards of living for rural residents.

What types of policy are more likely to enhance employment?

- Rural policy has to recognize the importance of urban influences, but rural policy has to be more than simply relying upon the “spreading of benefits” from urban development. Modern telecommunications promises broader opportunities for rural places.

What types of policy are more likely to enhance employment?

- Skill development is critical, especially for existing low skill workers. The young should be encouraged to return for more formal education. The middle aged should receive skills training that is geared to the needs of existing employers. Older workers may be best served by wage subsidies to employers or early retirement packages.

What types of policy are more likely to enhance employment?

- Local labor markets can be supported by strategies such as:
 - encouraging multiple job holding by workers to balance seasonal and part time demands for workers,
 - encouraging firms to share workers when they cannot afford a full time employee themselves,
 - supporting the development of better job matching organizations, private and public, to link workers and jobs, and,
 - encouraging firms to promote workers internally and provide ongoing training to all levels of workers.

Conclusion

Sustainable employment cannot be defined in terms of specific jobs. It is better thought of as a means by which rural people move through a series of employment activities over time as the local economy changes. It is a very different type of labor market than rural people have previously encountered and adapting to it will be challenging and require considerable public and private assistance.