Rural Resiliency, Leveling the Playing Field, and What Universities Can Do to Help

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Introduction

• Regional economic growth shaped by entrepreneurship
  – Young small establishments generate majority of job growth
  – Average worker productivity growth near-zero in older firms

• Critical Precondition
  – Entrepreneurial efficiency requires full market information

• Unlikely in many local economic development contexts
  – Thicker Metro markets vs Thinner Rural activity
  – Federal Reserve’s Center for the Study of Rural America
Information Imbalances

- Entrepreneurs face varying levels of information by location
  - Constrains investment, especially in frontier high-value activities

- Information Imbalances cause markets to miss opportunities
  - Lack of experience in lesser-tested markets deters good projects

- University partnerships generally evaluated narrowly
  - Tech Transfers, Startups, Gazelles...
  - But university informational role is far broader
  - Highlight opportunities in often-neglected rural areas
Leveling the Informational Playing Field

• Identical projects & Identical success chances, yet seen differently
  – Less activity means more uncertainty in thinner rural markets
  – Entrepreneurs, Investors, Creditors, and Insurance require risk premium

• Reinforcing cycle, discouraging biz where it could contribute most
  – Research: Poverty reduction, impact of credit, and job creation all higher

• If Information is problem’s source, Info itself can be targeted directly
  – Universities well-placed to generate, synthesize, and share Information

• Level informational playing field maximizes all regions’ opportunities
Establishment Dynamism

Establishment openings and closings closely correlated, but overall dynamism varies widely across counties.
Entrepreneurship and Growth

• Areas vary in terms of dynamism
  – Low Births/Low Deaths v High Births/High Deaths
  – Less dynamic economies seem attractive

• Recent research: Dynamism valuable
  – More innovation, testing market frontiers
  – Critically, long-term job growth stronger
  – More seeds & duds, but better chances for a Google

• Entrepreneurs are conduits for new ideas
  – Failure is part of becoming a dynamic economy
Defining and Tracking **Innovation**

*Product, process, or service that generates new value in the marketplace*

- Ideas
- Talent
- Capital

**Raw Innovation Generation**

- Innovators, who need
- **Entrepreneurs & Entrepreneurial Business Models** to refine raw innovations to identify/create/maximize market niche and value

- Market
  - Regional, National, and/or International
• Dynamism valuable on multiple levels
  – Younger firms more productive, channeling innovations
  – Worker options, moving to younger nimbler firms
  – Job growth stronger over long-term
• Why? Biz productivity depends on information
  – Demand, availability of inputs, etc.
• Where does this info come from?
  – Successes & *Failures* of other entrepreneurial ventures
  – What Doesn’t Work as important as What Does Work
  – Requires tolerance of Failures
Rural Amenity Challenge

- Quality-of-Life critical to attract/retain Talent
  - Creative Class E’ship attracted by Amenities
    - Natural but also Human Amenities
    - Clusters of entertainment, food, and residential options
  - Entrepreneurs can spark (re)development cycle
- Research highlights First-Mover Problem
  - Local market needs testing to understand viability
    - But no incentive to move first, rather wait for others
  - Neglected niches: $20 bills on Sidewalks?
Pioneering Problem and Implications

- Hickenlooper, Wynkoop, and LoDo Denver
  - “Pioneers get the arrows. The settlers get the land.”
- Market underprovides critical initial investments
  - Support for early entrants may have high payoffs
- Craft brewing industry as case study of Pioneers
  - Denver, but also smaller cities: Torrance, Flagstaff...
  - Often includes historical redevelopment legacy
Liquid Arts in Colorado

- **Colorado Microbrewing: Characterful National Reputation**
  - Malted Barley is most basic ingredient, yet shipped from afar
    - Quality consistency problems
    - Freight: 35%+ of total costs

- **CSU study**
  - Quantify risk perceptions and clarify returns for In-State Sourcing
  - Focus on San Luis Valley, fertile yet consistently poor rural region
  - Foundation for new cluster of micromalting operations

- **New Liquid Arts Research Forum**
  - Matches industry supply chain with university researchers
  - Agriculture to Processing to Marketing
Colorado Innovation Network

• COIN: Private + Non-Profit + Government
  – University research provides guidance

• COIN Industries: Collaborative Competition
  – Critical mass crucial for state competitiveness
    • Clusters: Big firms gain from small firms’ growth
    • Congestion and Costs hampering Front Range

• Non-metro small cities as Sweet Spots
  – Sufficient Scale for Business & Amenity Clusters
  – Thinking *regionally* can help all communities
    • Combine natural and human assets
Rebound from 2001 Recession

Tech, Telecomm, and Tourism hit Colorado especially hard

U.S. and Colorado Employment Growth, Q4: ’01-’05

% Change 2001:Q4 – 2005:Q4
Rural Areas are Still Pioneers

• Rural communities are remarkably entrepreneurial
  – Some farm legacy, but only 1/6th of rural ests are farms
  – Even accounting for ag, rural areas are more entrepreneurial
  – Cities hugely surprised – tech startups are NOT the norm!

• Rural areas have to be entrepreneurial
  – Big “wage and salary” employers are rare
  – Towns and residents have figured out ways to find their niche

• Even more remarkably, rural biz more resilient
  – 5-year survival rates over Great Recession (2004-2011)
  – In any given year, up to 10% higher survival in rural areas

• Small business banking loans spur firm births
  – Effect particularly strong in rural counties!
Entrepreneurship more concentrated in non-metro – and more resilient too

**Non-Farm Proprietors per 100 Residents, 2014**

- Metro
- Micro
- Rural

**Five-Year Business Survival Rate, 2004-2011**

- Metro
- Micro
- Rural
Where do Startups Start?

- Usual focus on Employers, but start as Solo/Partners
- Nonemployers: Recent focus on “Gig Economy” but...
  - Self-employed contractor gigs long norm for many
    - Construction, Tax Services, Consulting...
- Trend: Nonemployer & Smaller Employer Ests
  - Smaller efficient scale for businesses via IT
  - Even mfg becoming single-creator via 3D Fabrication
- 75% of all biz establishments are Nonemployers
  - 20-30% of Nonemployers become Employers
  - 94% of employer births have <10 employees
The Gig Economy

• What is Gig Economy’s impact on job creation?
  – Creates self-employment, also seeds of eventual Employers
  – Owners pay no employees with $1,000+ annual sales
  – Primary and Secondary Sources of Income

• Over last 2 decades...
  – 54% growth in Nonemployer establishments
    • 9% growth in traditional employer establishments
  – 20-30% of Nonemployers become Employers
    • Startups account for over 1/3 of new job creation in the US
Uber Drivers
Real Estate Agents
Photographers
Childcare Providers
Physicians
Writers
Tutors
Carpenters
Family-Ran Corner Shops
Colorado Nonemployers Concentration & Growth

Sectors that have more solo/partner entrepreneurs also those likely to birth more employers
Nonemployers into Employers

- Growth in Nonemployers creates more Employers
  - Consistent across time, biz cycles, and all US regions
- Small biz financing helps transition to Employers
  - Bank lending particularly effective in rural areas!
  - Rockies Venture Fund specializes in neglected markets
    - [http://rockiesventurefund.com/](http://rockiesventurefund.com/)
  - Conceptarian non-VC mechanisms: Debt, Equity, etc.
    - [http://www.conceptarian.com/](http://www.conceptarian.com/)
Conclusions

• **Universities can help inform neglected regional economic development opportunities**
  – Level economic playing field
  – Maximize opportunities for **all** regions

• Small towns as new growth poles
  – Advantages in Asset and Amenity mix
  – Lower costs and potentially higher quality of life
Thank you!

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