Rural area economic development efforts have not fared well in recent years.

Factors that can promote rural area development have often been overlooked.

Rural areas rank high on people’s expressed lifestyle preferences.

People from “Creative Class” occupations often can be attracted to live in rural areas.

Rural area economic development is best served by strategies focused on developing regions rather than individual communities.

Editor’s Note: Recent trends do not paint a promising future for rural Illinois communities, but their future can be made more promising if appropriate action is taken at both state and local levels. This Policy Profiles suggests how the future outlook for rural Illinois’ towns, villages, and cities can be substantially improved.

The nation’s rural communities – including those in Illinois – did not fare well in the recent economic recession. Rural areas (neither micropolitan nor metropolitan counties) in many states suffered severe losses to metro areas in the post-recession period. They had relatively slow growth or stagnant economies with outmigration of the workforce to better economic opportunities.

Illinois is no exception and these trends have been documented elsewhere along with options for alleviating them. While the future for many rural areas is not as bright as larger centers, many still can play strong roles as desirable places to live and work if they implement suitable development strategies.

The positive aspects of rural areas are often lost in discussions of negative past demographic and economic trends. This narrow perspective can lead policymakers in rural areas to overlook strategies that could improve their ability to contribute to the state economy.

However, the unique features and needs of rural areas are increasingly being incorporated into statewide economic development approaches. The Brookings Institution recently suggested development strategies that build on regional assets and recognize ways in which technology advances affect different regions. States like Michigan have had success with these efforts in the post-recession period.

This issue of Policy Profiles briefly highlights trends in rural economies since the 2009 recession using recently-released data on several development characteristics. It then describes how advances in technology are:

• causing industries seeking agglomeration economies to locate in larger centers in metro areas, and
• motivating rural residents with suitable knowledge and skills to migrate to these areas for economic reasons.

Finally, this Policy Profiles examines potential strategies that can build on opportunities in rural areas.

How is Rural Illinois Doing Compared with the State’s Urban Areas?

The answer to that question is, “Not well.” Recently released Census data from the American Community Survey clarifies or reinforces several commonly held perceptions.
In 2018, residents 65 years and older were 15.6% of the state population and 20.7% of the population in rural areas.

The elderly population (65 and over) increased 23.8% statewide between 2010 and 2018, but only 9.6% in rural counties (10,808 residents) and 12.4% in micropolitan counties. The percentage of change in rural areas was lower due to a substantial migration of older adults to urban areas. The result is that rural communities may have a smaller percentage of their elderly spending their retirement years there in the future. Nevertheless, the fact that aged residents are substantially higher as a percentage of the population in rural areas means that services in such areas must still address the needs of the elderly.

Illinois’ population was stable in the post-recession years (-0.7%), but rural counties lost -4.7% of their population, approximately the same as micropolitan areas (-4.9%), but more than twice the percentage of downstate metro areas (-2.1%).

The population cohorts under 20 and 20-64 years declined in both rural (-16.8%) and micropolitan (-18.3%) areas in Illinois. However, because the working age group declined 11% statewide, non-metropolitan counties fared far worse than the state as a whole.

Rural areas have a higher mortality rate because of higher concentrations of elderly residents. In rural and micropolitan counties, the number of deaths between 2010 and 2017 equaled 8.1% of the population in 2010. The statewide mortality rate for 2010-2017 was 5.9%. This discrepancy is consistent across the Midwest and other regions.3

Why is Outmigration Happening?
These trends confirm the outmigration of rural residents to larger centers. There are several reasons for this, including improved access to quality health services, proximity to family, and better employment opportunities. But, a 2009 Pew Survey found that more people (30%) preferred to live in a small towns or rural areas than any other location, including central cities (23%) or suburbs (25%). However, the satisfaction rating of people for where they were living was lowest in small towns (25%) compared with rural areas (29%), cities (34%), or suburbs (42%).4 Rural and small towns have the potential to meet lifestyle preferences, but many fall short of expectations.

How and Why has the Rural Economy Changed?
As statistics show, the most rapidly increasing population groups in the future will be 65 years and older. The statistics also show that the outmigration of all adult age groups from rural areas may mean smaller increases in the future of elderly residents in rural areas. Furthermore, the elderly who do retire in rural communities are an ever larger percentage of rural residents. Rural areas will have to provide services needed for those who do choose to spend their working and retirement years in rural communities.

What has This Meant for the Future of Rural Illinois?
Beginning in the 1980s, this divergence between rural and more urban counties reversed a trend where gaps in incomes and employment between rural and metro areas had been shrinking. Adding to this trend has been the growth of the information technology sector which requires specialized skills found less often outside of urban areas. That, in turn, reduced job opportunities in the manufacturing industry’s traditional supply chains, some of which were located in rural areas. Finally, rural jobs declined when some of the manufacturing jobs which might have developed in rural areas were instead lost by the movement of jobs overseas.

Why is This Happening?
Technology advances and regulatory changes that allowed consolidation of business services fostered a scenario in which rural areas and cities with the “wrong industries” fell behind in income and employment growth.5 More rapid technological advances caused industries to concentrate in places with similar or supporting industries providing agglomeration economies. These locations typically have been larger centers which pay higher wages that attract workers with high level skills from slower growing, usually rural areas. In short, non-metropolitan areas did not fare as well in the post-recession period.

Recent years have also seen relative employment declines in Illinois’ goods-producing industries such as resources and mining, construction, manufacturing, and agriculture. Unfortunately, the Illinois Department of Employment Security (IDES) forecasts that, through 2026, the state’s lower paying service sector jobs will grow more rapidly than the higher paying goods-producing sectors.

Rural areas have concentrations in manufacturing, health care, retail trade, and education. In 2018, manufacturing represented the largest share of employment in 22 of 62 rural or micropolitan counties. IDES projections for 2016-2026 are that this sector will grow, but much slower than other industries: - 2.7% compared to a 6.3% across all industries. Likewise, in 13 of 62 non-metro counties, the largest share of employment was in retail trade, which is also forecast to increase only 2.7%.

The impact of these trends (Figure 1 on the next page) is that during the 27 years ending in 2017, employment in Illinois increased most significantly in the counties...
located in metropolitan areas. They were less significant, but still substantial, in mid-size metropolitan regions, but only moderate in counties in micropolitan areas. Most significant is that employment also increased more in rural counties adjacent to metropolitan areas.

However, the message in Figure 1 for Illinois counties not adjacent to a metropolitan or micropolitan area is very different, perhaps even ominous. It shows that employment in Illinois’ rural counties not located adjacent to an urban area actually declined in the past 27 years! Rural areas were often left with basic industries that pay lower wages and are more susceptible to competition from off-shore competition paying even less. At the same time, large centers with concentrations of employment in information industries or sectors using advanced technology prospered. As advanced technology continues in the future, these large centers will likely grow more rapidly than surrounding rural areas nationwide and in Illinois.

Are There Opportunities for Rural Areas?

On a more positive note, health care employment, especially important in rural areas, grew 77.7% since 1990 with continued growth forecasted by IDES as the Baby Boom generation ages. Given the high percentage of rural residents who are older, this is very good news. Further, this development will make rural areas more enticing to urban residents interested in the possibility of spending their “golden years” in retirement, as well as some young families.

Can Quality of Rural Life Attract New Residents to Rural Communities?

Greater interest in recent years has been shown in quality of life considerations prominent in rural life. These considerations include (but are not limited to) factors such as access to a walking environment; a healthy, safe and slower paced lifestyle; and access to nearby recreation facilities. Such considerations make life in rural areas particularly attractive to people looking for a place to spend their “golden years” in retirement, as well as some young families.

Do Rural Communities Offer Other Attractions?

Growth in the Internet in the past decade increased competition on brick and mortar stores in rural areas, but access to high-speed Internet offers other new development opportunities. An information-based society permits people to live in areas with preferred living conditions and still be able to continue their work and daily activities. Internet shopping and quick delivery services offset some of the advantages of a more densely populated area, especially when housing costs and public services are considered.

Consequently, rural areas can now offer enhanced living conditions plus the work opportunities offered by proximity to larger communities. These characteristics can help attract and retain residents. Businesses must still be able to participate in supply chains and communicate with customers and vendors.

What is the Potential for Innovation in Rural Settings?

To remain economically competitive, rural areas must provide conditions for innovation to flourish. While it is difficult to quantify innovation potential precisely, the Indiana Business Research Center publishes an Innovation Index that scores counties according to several components:

**Figure 1** Employment change by county type in Illinois, 1990 and 2017*

<table>
<thead>
<tr>
<th>Category</th>
<th>1990</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large metro (pop. &gt;1M)</td>
<td>17.2%</td>
<td>6.2%</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Small metro (&lt;250K)</td>
<td>9.4%</td>
<td>2.8%</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Adjacent</td>
<td>9.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


*Adjacent counties are those located next to a metropolitan area.
• Human capital, e.g., growth in the population ages 25-44, high school graduation rate for young adults, number of patents;
• Business dynamics, e.g., growth in number of businesses;
• Business profile, e.g., availability of venture capital, number of new businesses in technology industries, number of self-employed residents;
• Employment and productivity, e.g., employment growth relative to population growth, GDP growth; and
• Economic well-being, e.g., personal income growth, growth in average wage per job, percentage of population in poverty.

Unfortunately for rural areas, all Illinois counties scoring above 100 (national average) on the innovation index are metropolitan (Figure 2 on the next page). Non-metropolitan areas scored lower, but micropolitan counties were closer to the national average than rural counties. Even rural areas closer to large metro areas fared better than those in remote areas suggesting that rural counties may continue to fight an uphill battle for economic growth and prosperity.

Another measure of development potential is the Vitality Index, published by the Hamilton Project at the Brookings Institution. This index measures economic and social well-being based on factors such as household income, poverty, unemployment of the prime working age population, and life expectancy. It adds additional insights regarding the economic health and potential of rural counties.

Both rural and micropolitan areas adjacent to metropolitan areas fare better than more remote counties on the Vitality Index (Figure 2). Again, this comparison highlights challenges that rural counties will face in the future and the need to identify strategies that build on local assets. The fact that micropolitan counties outperform their rural counterparts suggests these centers (10,000 to 50,000 population) can help drive their regional economy and stimulate population in surrounding smaller cities with an attractive living environment for both commuters and retirees.

The important finding is that, in the future, with shifts in industry location patterns, rural counties must find new approaches that highlight their assets as living environments, but also as potential areas for business investment. Incentives for building improvements, entrepreneurship support, marketing local attractions, and elderly-friendly programs are several options to consider.

Can Attracting the Creative Class Make a Difference in Rural Areas?

There has been much discussion and debate in the professional literature about attracting residents classified as the “creative class” based on occupation. Examples include chief executives, accountants, architects, engineers, lawyers, scientists, computer specialists, mathematicians, writers, and postsecondary teachers. The thinking is that communities able to attract and retain workers in skilled, knowledge-based occupations have stronger potential for employment and income growth.

Whether the creative class causes growth or is attracted by development generated by other factors has been contested, but creative occupations have been more resilient than others in supporting growth in recent years. This point is clear from Figure 3 on page 6. The main issue is whether rural areas can attract members of the creative class to design, produce, and market their services or goods over the Internet or in other profitable ways.

For rural areas to sustain their populations in the years to come, they may want to consider targeting residents in creative class occupations. Such occupations have grown 5.1% in metropolitan areas in recent years, far exceeding the 2.9% increase in total employment or the 1.4% increase in other occupations. Micropolitan areas did not benefit as much from the same growth trends in larger metropolitan areas with better access to technology and larger markets. But still, total employment in micropolitan areas declined 7.1%, while creative class occupations declined less (6.0%).

Current information on the creative class is unavailable for rural counties, but historically they have had fewer residents in creative occupations. But given evidence cited above that rural life is attractive to many, and given the superior growth of jobs for people pursuing creative occupations, it is incumbent on rural areas either desiring growth or desiring to maintain their existing population levels to pursue strategies designed to attract these groups.

While the jury is still out on successfully attracting the creative class based on pleasant surroundings and a relaxed lifestyle, there is strong evidence that this approach can work in areas with access to high-speed Internet service.

What Can the State of Illinois Do to Help Rural Areas?

Clearly, parts of rural Illinois face major challenges to their prosperity and to their future economic viability. Technological trends work against them as shown by recent employment and population changes. While surveys of populations reveal a preference for lifestyles common in rural areas, the key question remains: can rural areas maintain the kinds of local employment opportunities that are essential to attracting and retaining residents?

So, what are the rural options and how can statewide policies help? Recent work by the Brookings Institution previously discussed is noteworthy in suggesting
The **Innovation Index** scores counties based on human capital, business dynamics, and business profile. See p. 3.

The **Vitality Index** scores measure economic and social well-being. See p. 4.

Source: *Indiana Business Research Center, Innovation Index, 2016; The Hamilton Project, Vitality Index, 2017.*
several approaches. State governments are also implementing strategies to address the industrial trends described above.

What Kinds of Strategies Have Been Tried in Other States?
Because many small rural communities do not currently have the economic base to sustain development efforts, rural development planning has moved to emphasize regional approaches in designing development strategies.

Effective statewide development strategies must recognize the different attractions of rural and metropolitan areas with policies for each. This approach may be difficult when fiscal resources are tight since the highest payoff in employment statewide is luring large employers to metro areas. Still, this strategy might well be critical to keep rural areas economically healthy.

There remains a question of what kinds of economic development strategies exist that can be focused on areas, such as rural communities with limited attractions for industrial development. Some states have initiatives designed to tailor development programs for specific locations, including small rural areas and micropolitan communities as well as large metropolitan regions. These are described in the paragraphs below.

What Statewide Examples Exist?
Michigan, for instance, uses a strong, place-based development strategy that recognizes both the need and value of working with communities of many sizes and locations across the state. The state has rebounded since the recession, using an active regional development strategy to make locations of all types more attractive to residents and businesses. Regions are organized with local leaders working closely with state agencies to implement regional-focused strategies that highlight their advantages.12

In 2011, New York State created 10 Regional Economic Development Councils comprised of business and community leaders who, in turn, collaborated with state agencies on programs designed for their specific regional advantages. In addition, it established a Consolidated Funding Account where state agencies work together to support regional projects addressing place-making, workforce, tradeable sectors, and innovation issues. In 2019, for example, the state awarded $750 million in grants for regional projects that are locally initiated and managed.

Kansas focused on building capacity for leadership and decision-making in rural areas where technical expertise is often less than in larger places because many leaders are part-time. Building local capacities can strengthen the decision-making processes and enable local leaders to work more effectively with state and federal programs.

The Kentucky Association of Counties hosts workshops on subjects such as principles of public finance, economic development, and transportation. The Association pays local officials, ranging from clerks to commissioners, to attend. The intent is to strengthen local capacity to work with state and federal programs to address local issues.

What Other Ideas Are Being Tried?
Regional Growth Hubs are among the ideas finding success. This is a regionally-based approach for use where small rural communities do not currently have the economic base to sustain development and rely on micropolitan centers as regional hubs. Efforts are made to attract new employers to locate in or near the hub. Workers can live in desirable surroundings, either in the hub or in near-by communities and commute to work (or even telecommute in some cases). Either way, business activity is stimulated, new jobs help to retain or attract new residents, and population growth is increased in surrounding areas. As an example, the Regional Prosperity Initiative in Michigan awards grants to multi-county regions pursuing economic development projects around growth centers.

Upgrading Broadband Access is another approach. Businesses and residents increasingly consider access to high quality broadband essential to location...
decisions, placing many rural areas at a substantial disadvantage unless access can be improved through public-private partnerships. This access is key to both business development and improved quality of local life. The recently passed Illinois State 2020 budget includes $420 million for broadband improvements which can significantly change the game for rural areas willing to invest in strategic local development.

**High Quality Living Conditions.** Crucial to attracting both employers and residents is the suitability of the living environment, ranging from cost of services to the capacity for sound public decisions about the future, along with state incentives that promote them. Rural communities in Iowa, Minnesota, and other states have attracted immigrants and integrated them into the workforce and business ventures. Incoming residents have skills needed by local businesses but also bring professional contacts and experiences. Many have started successful businesses that serve local markets as well as those in the previous locations. The Latino Economic Development Center in Minnesota, for example, offers bilingual workshops on business management subjects, low-interest loans for immigrant-owned enterprises, and personalized assistance in identifying opportunities for business expansion.

**Costs of Public Services.** Increasingly, higher spending on public services due to pension obligations and other factors have made property taxes a consideration in residents’ choice of where to live. In the past, lower property taxes in rural areas, even though services are less, attracted those employed in surrounding larger centers. Continued population declines, however, will spread the costs of public services over fewer residents in the future, removing some advantages offered by rural areas in the past. In many instances, the governmental structure for delivering services has not changed, or even has expanded, increasing the financial burden as the number of residents decreases.

Rural areas seeking to reduce the costs of high quality services can modernize the delivery system for services by taking advantage of technology and other improvements. The ultimate aim can be to reduce *per capita* property taxes. The *Skinny Ohio* initiative provides successful collaboration and service sharing arrangements in Ohio and offers guides for practitioners interested in exploring opportunities in their communities. Examples of effective collaboration can be considered for Illinois as well as building on past successes of local governments.

**Summary**

Advances in technology will continue to favor large centers containing industries using these applications. These centers will draw graduates with suitable skills from surrounding areas. Increased retirements resulting from an aging population will bring business closings and pose challenges.

The 2020 Illinois State budget offers several key options that enable rural areas to catch up on broadband and other issues. It will be important during the next several years to help leaders in rural areas determine their advantages and act to overcome potential economic threats, perhaps using some of the strategies described above. Especially important is for state policies and initiatives to recognize the assets of various regions in Illinois and work with local leaders to maximize their value for development purposes.

**Endnotes**

1In this analysis, rural counties are defined as neither a metropolitan county (city of 50,000+) nor a micropolitan county (city of 10,000 but not larger than 50,000 population).


5Hendrickson et al. 2018. op. cit.


10For a full list of creative class occupations, please see: https://www.ers.usda.gov/data-products/creative-class-county-codes/documentation/


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