Global Squeeze on Rural America: Opportunities, Threats, and Challenges From NAFTA, GATT, and Processes of Globalization

A Report of

The Institute for Policy Research and Evaluation
Graduate School of Public Policy and Administration
The Pennsylvania State University

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GLOBAL SQUEEZE ON RURAL AMERICA

PREFACE. During the waning years of this decade, Rural America may face its greatest challenge since the Second World War. The 1960s and 1970s witnessed significant growth in non-farm jobs in Rural America based on the movement of factories out of major cities. These jobs grew most rapidly in those small towns and communities where wages were low and labor abundant, land was cheap, and communities organized to create a receptive business climate.

But dramatic changes have been occurring in the international economy during the 1980s and early 1990s that will have direct repercussions on the future prospects for Rural America. Rising levels of trade among the advanced industrial nations, increasing trade within industries and within subsidiaries of single firms, and emerging competition for North American manufacturing from low-wage developing nations of Asia, Eastern Europe, and Latin America are part of a process now called, more generally, *globalization*. The North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT) both reflect this process and are instruments for its acceleration. There are reasons to suspect that these changes will have a disproportionately negative effect upon Rural America.

In early October 1993, a carefully selected group of specialists from government, industry, community organizations, and academia met for two days at The Aspen Institute's Wye Woods conference facility to focus their combined energy on the following themes:

- What are the potential impacts on Rural America of the globalization process, and particularly of NAFTA and GATT?

- What are the trends in economic development, corporate strategy, industrial modernization, and workforce training that support Rural America's ability to succeed in the global economy?

- What policies are needed at the national, state, and local levels to take advantage of the opportunities raised by globalization and to counter any threats that may be faced?

This public education document represents the first synopsis of the discussions at the conference. A lengthier document including the papers presented at the conference will be published later this year.

The conference was organized under the auspices of the Institute for Policy Research and Evaluation, Graduate School of Public Policy and Administration, The Pennsylvania State University, in collaboration with the Rural Economic Policy Program of The Aspen Institute. Funding for the project from the Rural Poverty and Resources Program of the Ford Foundation and from The Pennsylvania State University is gratefully acknowledged.

This synopsis of the intensive days at Wye Woods cannot convey the full complexity of the dialogue and the debate. Space constraints in this document preclude the inclusion of every contending perspective offered on each subject discussed over the two days of the conference. However, it represents a good-faith effort by the authors to summarize and synthesize the conference. It should not be taken to represent fully the position of *any* of the participants named or quoted.

Special appreciation is given to Robin Leichenko, Ph.D. candidate, Department of Geography, The Pennsylvania State University. Robin was responsible for conference logistics and provided considerable assistance in the completion of this document. Special thanks also go to John Bodenman and Michael Miley, who assisted in the execution of the conference. The staff at the Institute for Policy Research and Evaluation, Penn State, were extraordinarily efficient in the execution of the conference and the preparation of this report.

Amy K. Glasmeier and Michael E. Conroy, Conference Coordinators

GLOBAL SQUEEZE ON RURAL AMERICA

Origins of the Concerns for Rural America

We are just beginning to sense, feel, and understand the broader implications of the processes of globalization that have swept the world over the past decade. Increasing global economic integration provides rural U.S. towns and communities with the opportunity to produce goods and services for the global market. But it also means that Rural America must be prepared to compete with producers of goods and services worldwide. The North American Free Trade Agreement (NAFTA) will facilitate the process of globalization by eliminating, gradually, all trade barriers among Mexico, the U.S., and Canada. The General Agreement on Tariff and Trade (GATT) will extend similar openness to trade to most countries of the world. Never before have American companies, American workers, and American communities faced the levels of competition that they will encounter in the coming years. Is Rural America ready for the opportunities and challenges that will result from economic globalization and free trade?

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Rural America is a principal repository of the nation's least educated, lowest skilled workers. Rural America is also the location of most of the nation's low-wage, low-productivity manufacturing jobs. What role, if any, will there be for rural communities in the new global economy? What policies and practices are possible, and what experiences can be shared, as creative responses to the challenges of globalization?

America's most important industrialized competitors, Japan and the European Community, have developed long-term strategies to assist their affected workers, communities, industries, and regions in adjusting to the evolving global reality. To date, no similar adjustment and displacement strategies have been developed for the United States. Are we prepared to design and implement the policies needed, particularly in Rural America, to respond to problems associated with globalization that are already emerging? If we do not develop policies to anticipate and counteract the impacts on Rural America, what implications does this carry for sharing the burdens of adjustment to the new global economy?

The Rural Development Problem. Concern about contemporary rural development problems may come as a surprise. It has been only two decades since headlines regularly boasted of a rural "turnaround" based on the renewed growth of small communities.[1] Factors that contributed to the much-touted rural renaissance of the late 1960s and 1970s are by now well known. Manufacturing plants, which had been expanding from urban areas of the Northeastern and Midwestern United States since the 1950s, drew new investments and population to rural counties for the first time in decades. High energy prices stimulated demand for new petroleum reserves and petroleum substitutes, fostering growth in rural mainstay industries such as coal and oil shale. Nonmetropolitan fertility rates were higher than metropolitan rates. The first large wave of Social Security-supported and wealthier retirees began to leave urban areas in search of a more relaxed, lower cost lifestyle.

In the 1980s . . . the principal sources of rural community export-led development — manufacturing, natural resources, and agriculture—all stagnated.

During the early 1980s, many of the sources of rural economic prosperity of the previous decade began to stagnate. For agriculture, the traditional bedrock of Rural America, unprecedented high interest rates, increasing self-sufficiency of former grain-importing countries, and continuing consolidation and mechanization of farms precipitated a renewed exodus of people from rural areas, particularly in the corn belt of the Northern Great Plains states. The mining sector—another traditional source of rural growth—suffered a triple blow. Mineral and energy commodity prices fell during and after the 1981-1983 recession. This was matched with an absolute reduction in the volume of minerals-based commodities used to produce goods such as automobiles. Combined with the oil glut of the mid-1980s that developed as OPEC countries lost control of the world's oil reserves, these factors rendered many marginal domestic oil fields uneconomic.

Manufacturing, once considered the source of rural deliverance, fell on hard times during the 1980s. The recession of the early 1980s, in combination with an overvalued dollar, wrought havoc on American manufacturers. To remain competitive, firms had to choose between improving productivity by investing in new capital equipment, shifting production to foreign locations, or sourcing from lower cost foreign producers. Low-skilled, labor-intensive industries that had moved to rural areas in search of low-cost production sites fared worse than other sectors during the recession. Producing mature products—those that had already completed their most rapid periods of growth in demand—and facing stiff competition from low-cost imports, firms with plants in rural areas were unwilling or unable to invest in new equipment. Many plants shut down. The remaining rural industrial base received little investment, serving to further concentrate employment in labor-intensive activities.[2]

Another trend that sidestepped rural areas in the 1980s was the growth of advanced business services.[3] The nation's cities moved forward into the "information age," while Rural America remained largely wedded to a low-wage manufacturing-based growth strategy. Despite intense local economic development efforts, the principal sources of rural community export-led development—manufacturing, natural resources, and agriculture—continued to stagnate. Thus, during the 1980s, rural areas, pummeled by job losses in manufacturing and saddled with aging plants and equipment, failed to make the transition to a service-led economy. Job growth in many nonmetropolitan areas came to a halt, and most rural communities actually lost ground.

America's cities moved into the "information-age" while rural areas concentrated on a slow-growth manufacturing strategy.

This report is written at a time when rural fortunes are once again at a crossroads. The effects of a decade of stagnation on social and economic progress in rural areas has been deeply destructive. Despite major advances in population and employment growth in the 1970s, Rural America still lags behind the nation's cities on a number of important measures.

- Rural unemployment rates are two percentage points above urban rates, and income growth has fallen seven percentage points below rates for urban areas.[4]

- Rural poverty rates are 16 percent, a rate substantially above urban areas, and poverty levels are much worse for rural African-American and female-headed families, hovering at 40 percent.[5]

- Forty-two percent of rural workers receive earnings at or below the nation's poverty level for a family of four.[6] Rural workers between the ages of 16 and 24 are particularly disadvantaged; less than 50 percent earn wages above the official poverty level.[7]

Perhaps more crucial is the mounting evidence that serious problems are forming dark clouds on the horizon of Rural America. The following statistics from the U.S. Department of Agriculture (USDA) capture the basis for these future problems.

Rural communities are falling further behind America's cities and suburbs. Rural workers are working harder, for less pay, in less stable and often less fulfilling jobs than urban workers.

- Only 70 percent of rural workers have finished high school, compared with 77 percent in urban areas.

- Only 13.2 percent of today's rural workers have completed college, compared with 22 percent in urban areas.

- Disparities in levels of educational attainment between urban and rural areas, once converging, now appear to be widening.[8]

- In today's Rural America, the historic link among education, employment, and earnings growth has eroded considerably; it is no longer as valuable to seek further education if one wishes to remain in rural areas.[9] Rural workers experience a 30 percent lower rate of return to education.[10]

These solemn statistics add up to one undeniable fact: Rural workers are working harder, for less pay, in less stable and often less fulfilling jobs than are urban workers.[11]

With these statistics as a backdrop, Rural America enters an era in which competition is stiffening as the result of major transformations in the global economy. Rural America's traditional comparative advantages—cheap labor, a lax regulatory environment, and pro-business culture—are no longer enough. Many of America's international competitors have lower wages and higher skills, and offer more lucrative investment incentives. By the late 1980s, even though rural manufacturing had begun to grow again, job levels were far below those of the 1960s.[12]

Globalization: Its Nature and Effects

How do rural areas fit into the national economy in an era in which corporations are becoming increasingly global and international competition increasingly fierce? Historically, Rural America has long been a major contributor to the nation's international trade, for agriculture and mining have been mainstays of both U.S. exports and U.S. rural development. Globalization, however, brings significant change to the processes that have most affected Rural America in the last 20 years: changes in the patterns of rural industrialization and in the provision of services. What we will argue here, based on the collective wisdom of the conference participants, is that globalization is producing changes in the nature of both international trade and multinational firms in ways that are likely to require dramatic re-thinking of bases for rural development during the remainder of this century.

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Global Trends: The Immediate Reality. Over the last two decades, the rate of growth in the global economy has slowed dramatically, but international trade has been expanding at an unprecedented pace.[13] From the early 1950s to the early 1970s, global growth rates were approximately 4 percent per year. Since the early 1970s, this rate of growth has slowed to about 2 percent. For some countries, particularly in Africa and Latin America, negative growth rates characterized much of the past decade.[14] Consequently, corporations have been facing intensified competition for a share of slowly growing world markets.

In a paper commissioned for this conference, Peter Dicken writes that "globalization refers to the creation of complex processes that *integrate the production of products and services across international boundaries*."[15] This intensified competition and the growing integration of economic activities across boundaries have been occurring because of four major global trends that affect Rural America.

- *Trade liberalization.* The opening of markets worldwide through ever lower tariffs and non-tariff barriers has reduced the protection long enjoyed by many firms located in Europe, Japan, and the United States. Virtually *every* plant, or mill, or nonfarm business in Rural America now faces greater competition from abroad.

"Globalization refers to the creation of complex processes that integrate the production of products and services across international boundaries." This is happening because of trade liberalization, technological change, corporate restructuring, and competitive government policy.

- *Technological change.* The revolutionary reductions over the past 20 years in the costs of transportation and communication (whether measured in terms of the cost and reliability of "overnight" shipping or the cost and reliability of facsimile communications) have lessened the need for manufacturing plants or major service centers to be close to either their headquarters or their markets.

- *Corporate restructuring.* There has been dramatic change in the internal structures of transnational firms, the "primary globalizing force." They have been moving away from "vertical integration" of all stages of production and moving toward more flexible patterns of "multi-source" international production that require less ownership and more reliance on strategic alliances, short-term contracts, and the shipment of components from many different international sources to as many different markets.

- *Competitive government policy.* National governments around the world are becoming increasingly—and more consciously—competitive in the design and implementation of policies to enhance their economic growth. Macroeconomic policy in general and industrial policy in particular are now the day-to-day instruments of governments as they seek to encourage economic growth and attract international investment.

In the past, Rural America depended upon patterns of manufacturing growth that brought plants and service industries to rural communities under conditions where they promised (and often provided) stable patterns of employment for their workers, with predictable patterns of hiring, reasonably good benefits, and career opportunities for local employees within the firm. The plants, whether an auto parts supplier for General Motors or a catalogue order center for Sears, were part of the vertically integrated larger corporations that benefited from the financial strength, long-term reputation, and oligopoly market power of the parent corporation.

In the past, Rural America depended upon patterns of manufacturing growth that brought branch plants and service industries to rural communities. These plants were part of vertically integrated corporations.

During the 1970s and 1980s, rural industrialization came to America in the form of both domestic firms moving farther from cities to take advantage of lower land and labor costs and foreign firms that established assembly operations in rural areas in the U.S. in order to find lower wages, to be somewhat closer to final markets, and to get around the tariffs that would be charged on their products if they were wholly manufactured outside the United States. One highway, Interstate 85 from Montgomery, AL, to Raleigh, NC, may provide the best example of this pattern of industrialization.

Increased competition in the global economy is unfolding in three dimensions. First, a rapidly growing number of corporations are competing internationally.[16] Only a decade ago there were approximately 7,000 multinational corporations (primarily American- and British-owned). Today, there are over 35,000 multinational firms. Ownership of these organizations has greatly expanded to include multinational organizations headquartered in both developed and developing countries.

A second dimension is the growth in foreign direct investment. Before the late 1980s, the majority of foreign direct investment consisted of U.S. and British firms establishing international operations to gain access to primary European and U.S. markets.[17] Today, new global competitors (such as Japan and

Korea) have established operations in the developed world[18] and foreign direct manufacturing investment has expanded rapidly to include developing countries—Latin American nations in particular.[19] As developing economies become more open through trade liberalization, they are increasingly becoming the recipients of major new flows of global foreign investment.

A third dimension is the blurring of ownership and nationality of corporations as firms increasingly pursue international strategic alliances, joint ventures, and production networks to become more competitive, gain new market access, and in some cases pursue whole new lines of business.[20] We are entering an era in which intensified global competition requires competitive collaboration in order to gain access to markets. Competing firms are joining together to take advantage of their individual core competencies, often sharing in design and production specialties.[21] As firms have moved to focus more on activities closer to the consumer, particularly services, they have found it less necessary to own the entire set of operations needed to manufacture a product.[22] In the past when a firm brought a new product to market, it would examine its existing production operations to find the surplus capacity needed to manufacture the good. Today, firms look to a wide range of domestic and international collaborators, including some of their own plants, to see how and where the product can be produced most profitably. There is no longer an assumption that production will take place either in a plant that might be owned by the firm or within the country in which the principal markets are located.

Increased competition in the global economy is unfolding in three dimensions: many more corporations competing internationally; great increases in foreign direct investment; and a blurring in the patterns of ownership and nationality.

Major corporations have a much greater propensity now to "shed" older operations—selling them off or closing them—when they no longer fit the image of "global competitor." They are selectively "scanning and creaming" the competitive environment to form lucrative and strategic partnerships. This often means closing down branch plants or other facilities that duplicate what they can obtain, locally or internationally, from strategic alliances.

The global economy and Rural America: The branch plant phenomenon. The umbilical cord linking Rural America to events in the global economy is the longstanding role played by branch plant operations of national and international corporations selling in the national market. These organizations include large and small establishments, wholly-owned subsidiaries, and affiliates. In her conference paper, Amy Glasmeier noted that large firms and multi-locational corporations provide most rural manufacturing employment.[23] In remote areas such as Appalachia, employment at non-locally-owned manufacturing establishments constitutes as much as 57 percent of total manufacturing employment—with much higher concentrations in selected industries.[24] Today more than ever, these operations are at risk. As firms find new opportunities to produce for markets in the U.S. and Europe from sites spread around the world, the advantages that some rural communities might have offered in the 1960s and 1970s may no longer have much meaning.

The umbilical cord linking Rural America to events in the global economy is the longstanding role played by branch plant operations of national and international corporations engaged in the national market. The trend toward globalization has caused these plants to be at risk.

Manufacturing facilities associated with corporations with many plants at many sites have typically been a critical source of good jobs. Multilocational firms are more likely to provide health, pension, and child-care benefits, and to provide for occupational mobility through job advancement.[25] They also are far more likely to adopt and implement new advanced computer-controlled technologies.[26] Multi-plant employers have been a major source of positive change in rural areas and in Appalachia. While there are certainly examples of poor labor and working conditions in large manufacturing establishments, the majority of contemporary research points to the importance of these employers in expanding jobs and economic mobility for America's most disadvantaged residents. These firms are, in fact, the principal targets of rural development policy and the sources of local economic development most assiduously pursued by state and local agencies.

Until recently, the global vision of multilocational corporations has been of little consequence to Rural America. The domestic economy expanded steadily throughout much of the post-World War II era, and rural areas were able to attract branch plants of growing firms on the basis of low wages and a hard working labor force. Communities and states provided additional relocation incentives through tax credits and rebates, while federal assistance came through construction of the interstate highway system and other targeted infrastructure investments. Later, when foreign competitors began making inroads into the U.S. domestic market in industries such as textiles and apparel, rural areas actually benefited from the flight of producers from high-wage unionized areas.[27]

But the advantages of low wages and a hard working labor force are no longer unique attributes of Rural America. Corporations have found that alternative production sites in developing nations offer vastly lower labor costs and often have better trained and more productive workers.[28]

Where American multinational firms have historically defined their markets on a nation-by-nation basis, the emergence of global competitors in nearly all major industrial segments is forcing them to reformulate their operating strategies on a worldwide scale. Relative cost inefficiencies within national markets are fueling momentum within multinational organizations to create global production systems.[29]

As corporations begin this process of global reorganization, they are realizing that the early rationale for branch plants in Rural America may not fit with new economic conditions.

As corporations begin this process of global reorganization, they are realizing that the early rationale for branch plants in Rural America may not fit with new economic conditions. Many analysts believe that businesses in advanced countries simply must move to "the higher ground of specialized products and services."[30] This does not bode well for Rural America, which had been competing most successfully on the basis of low costs for production oriented to the domestic national market.

In short, branch plants in Rural America have experienced significant increases in competition over the last decade from all those regions of the world that can offer lower wages for labor-intensive activities.[31] Given the new options open to corporate organizations and the impacts of heightening global competition, rural branch plants and affiliates of major corporations are increasingly at risk of downsizing and closure.

Shifting fortunes: Global competition between communities. As globally oriented firms seek locations for new or expanded production, a level of overt, cut-throat competition has emerged among nations and among regions within nations, which is more acute than ever before. The intensity of current competition for the location of new production facilities and some of the implications that this may have for Rural America were addressed in a paper for the conference prepared by Michael E. Conroy. Conroy reported on a research experiment in which he had solicited direct and specific information on the "incentives" that local, state, and national development organizations would offer for a hypothetical investment in an electronics assembly plant.

The range of incentives runs from virtually none in the hyper-low-wage industrial parks of Central America to grants that could cover most of the cost of new facilities, including structures, training, and factory equipment, in the European Economic Union. The intensity and sophistication of the response to inquiries of this sort illustrated the nature of the competition. This competition exists despite the relatively strong consensus among both location theorists and development practitioners that the incentives now being offered by local governments (or demanded by firms proposing location or expansion) may never be recouped in terms of direct and indirect benefits to the communities.

As globally oriented firms seek locations for new or expanded production, a level of overt, cut-throat competition has emerged among nations and among regions within nations, which is more acute than ever before.

Communities in Rural America tend to offer, according to the Conroy study, wide ranges of subsidized sites, training services, and plant construction, as well as abatement of taxes for long but varying periods of time. Most of the responses to the Conroy survey also tended to emphasize the availability of low-wage, non-union labor. The incentive packages offered by local development organizations in the United States are seldom likely to be sufficient to offset the subsidies available in Europe, or the hyper-low wages available in Central America; but they may be capable of shifting production already destined for a U.S. site from one location to another in the U.S., although at great cost to the local community.

"Two Roads" to global competitiveness. In this new global competition, two distinct patterns of response appear to be emerging, both within global corporations as they choose their production sites and among private and governmental groups attempting to affect that decision. These response patterns might be called two roads to global competitiveness. The first, the "high

road," consists of efforts to respond to global pressures by raising the productivity of workers, factories, and production complexes, by increasing worker general education and job-related training, by encouraging investment in newer, productivity-enhancing processes and equipment, and by improving the internal organization of the firm through new patterns of partnership between workers and management. The high road is the response most likely to produce or maintain relatively high wage levels.

The second approach is a "low road" characterized by seeking ever lower costs of production through increased employment of low-skill, low productivity workers, by moving portions of production to those locations where wage costs are minimized, and by locating in areas where taxes, regulations, and other components of cost are minimized. This alternative approach to global competition, according to discussion at the conference, may be unintentionally encouraged by a failure to develop adequate national policies with respect to education, training, modernization, and workplace improvement. It is the road of least resistance for debt-ridden firms unable to invest in the improvements needed for the high road; it may be the path most likely to promote the export of jobs to areas of globally lowest wages.

There are two roads to global competitiveness. The high road raises the productivity of workers, factories, and production complexes; the low road increases the employment of low-skill, low productivity workers in places where taxes and regulations of all sorts are minimized.

What these developments mean for rural communities. As firms reduce in size and focus on core activities to improve competitiveness, they are increasingly faced with overcapacity and redundant operations. Firms also are discovering that more flexible production processes mean that they need less capital located in fewer places to compete in the world market. As this transformation takes place, many communities and facilities will be abandoned.

One possible antidote to retrenchment of domestic firms seeking to become globally competitive is that Rural America may be able to gain jobs through the expansion of foreign-owned manufacturing subsidiaries. Raymond Vernon argued at the conference that this new flow of investment is driven primarily by a desire for increased access to U.S. markets, rather than by the global search for lower production costs. Occasionally, firms choose so-called "green-field" development, in which new plants are constructed in areas with little history of manufacturing—the development of a BMW plant in South Carolina or a Mercedes-Benz factory in Alabama are examples that have drawn international media attention. But the bulk of foreign investment, according to Professor Vernon, consists of foreign acquisition of existing firms and their plants. Most of these investments occur within core manufacturing regions. Successful retention of employment, under these conditions, requires that rural communities create the environment needed by the new owners for profitable production. In addition, effective local policies may increase the attractiveness of local plants and local firms for potential foreign investors.

Globalization also reinforces "an enormous asymmetry of power between local economies and international firms."[32] Despite the whirlwind of activities undertaken by local communities to attract or retain manufacturing facilities, there may be very little that they can actually do *on their own* other than provide an attractive business environment that meets the needs of international business. Raising skill and education levels and improving the local infrastructure may be the most important relevant *local* activity that can make a difference. But quickly upgrading the position of a local economy within international corporate networks and hierarchies is difficult. Nevertheless, a consensus began to emerge at the conference on the policies most needed to strengthen the competitiveness of local communities.

Globalization also reinforces the asymmetry of power between local economies and international firms.

Significant evidence also was presented over the course of the two-day meeting that national policies to enhance global competitiveness can have widely differing impacts on local areas. This recognition suggests that we develop strategic domestic policies that anticipate impacts on Rural America and on other disadvantaged communities. This will require efforts to reorient our thinking about the kind of domestic policy that is appropriate in an era of globalization.

Changing governmental policies also are propelling firms to reorient and reorganize themselves. While the unfolding globalization of the economy appears to be a relentless process, governmental actions such as NAFTA and GATT demarcate new plateaus of regional and international economic cooperation and integration that in turn trigger strategic actions on the part of corporations to take advantage of the transformed economic horizon.[33]

The New Challenges of NAFTA and GATT

NAFTA and GATT represent concrete steps to encourage and facilitate the expansion of international trade. They are, in fact, instruments of globalization. They provide the bases for new opportunities and new challenges in Rural America, as well as new potential threats to the already-depressed employment picture there.

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NAFTA, which went into effect on January 1st of this year, has created the largest combined consumer market in the world. When fully implemented some fifteen years from now, the entire consumer market in the United States, Canada, and Mexico will be available, without tariff barriers, to producers in any of the three countries. This may represent a major opportunity for expansion of production for some firms, some plants, and some industries.

NAFTA also represents a significant expansion in the range of choice of locations for firms producing for the U.S. market. Analysis of likely "winners" and "losers" under NAFTA suggests that non-farm rural industries in the U.S. may face especially important challenges. Rural America has specialized in recent years in the low-wage, low productivity forms of production for which it had a relative domestic comparative advantage. Those are precisely the kinds of jobs most likely to be moved to Mexico. Pre-NAFTA trends indicate that they have been moving there at a growing rate since 1988 when Mexico first stabilized its economy and, through massive regulatory restructuring, created a climate much more attractive to foreign investment.[34]

To the extent that many firms find it attractive under present conditions in the U.S. to pursue the low road to global competitiveness, NAFTA provides further encouragement. It opens access to a vast supply of labor available at cost levels in some industries that are little more than one-ninth the cost of comparable workers in the U.S. NAFTA also lessens those firms' need to invest in new processes, new equipment, expanded job training, or improvements in workplace organization in order to lower total costs of production to remain globally competitive.

In this sense, NAFTA is a critical challenge to policymakers concerned with U.S. competitiveness and the future of Rural America. It redoubles the importance of creating an environment in which economic growth is built around the high road. This can only be done through new programs, new initiatives, and new forms of collaboration at the national, state, and local levels.

NAFTA and GATT redouble the importance of creating an environment in which economic growth is built around the high road.

The GATT agreement, reached in principle on December 15, 1993, and scheduled for debate in the U.S. Congress during 1994, represents a vast broadening of the globalizing impact of NAFTA. If GATT is passed and its implementation begins, Rural America will have the opportunity to produce for markets in the more than 100 nations that belong to GATT. By the same token, transnational firms will be able to produce goods for the U.S. and other markets from bases in a much wider range of locations. Many of these locations have labor cost structures much lower than those in Mexico. Many have regulatory environments that are more similar to Mexico's than to the United States'.

The further reduction in tariffs brought by GATT will lead to clear benefits in general for consumers. But Rural America will face even tougher competition under GATT than it faces under NAFTA. It will be extremely difficult for Rural America to compete for low road production facilities, for it is unlikely that any local area in the U.S. would deliberately set out to replicate the conditions under which the globe's least-cost labor force works. The importance of developing local competency for high road investment will be greater than ever. In fact, Rural America will need to develop wholly new approaches to "selling itself" in the global arena.

Options for Increased Competitiveness

As we enter the 1990s, it is important and necessary to understand the vital role played by large employers in the creation of jobs and wealth in local, often remote communities. This report contains evidence that can fill existing gaps in our understanding of this prospect. The discussion presented below will show that there is considerable room for constructive, carefully tailored policies to help remote, manufacturing-dependent American communities achieve their potential.

Industrial Modernization: Where Do Rural Places Fit In?

Modernization means firms must attempt interdependent development of their design and production technologies, worker skills and work organization, customer/ supplier relationships, market focus, and management practices.

American manufacturing firms lack modernization. The nation's manufacturing firms face serious problems of global competition because of inadequate investments in modern industrial practices. Communities attempting to retain existing employers often find that a prerequisite for a manufacturer's survival is significant upgrading of physical plant, workers' skills, and corporate strategy. To compete effectively in the global economy, "American manufacturers must master new technologies, techniques, and methods of work organization. Our society will be richer if many firms take this path of continuous change," according to Jack Russell, in a paper distributed at the conference. In order to modernize, firms must pursue a complex and lengthy process of transformation leading to best practice. Russell argues that actions must be taken by firms, including the "interdependent development of design and production technologies, worker skills and work organization, customer and supplier relationships, market focus and management practices." Discussion at the conference noted that programs are being designed to address problems of modernization for small and medium-sized firms located in key manufacturing agglomerations. It is presumed that large firms with branch plants have both the internal resources and the internal "will" to modernize. But do they?

Federal and state programs support modernization. National- and state-level organizations are actively engaged in developing the infrastructure to support industrial modernization. At the federal level, the Manufacturing Extension Partnership of the U.S. Department of Commerce's National Institute of Standards and Technology is the leading sponsor of modernization capabilities. The Manufacturing Technology Centers are expected to assist over 100 communities to have the technical support needed to modernize America's manufacturers.

States are also becoming actively engaged in modernization efforts. Many programs are modelled after the successful experience of Georgia Tech's industrial extension program, started in the 1950s. The program provides industry-specific technical assistance to upgrade firms' technical and physical capabilities. At present, however, most state-level programs lack sufficient resources and technical expertise to provide services to large numbers of firms.

Branch plants and the problem of "mature products" in Rural America. For rural areas, the problems of modernization and retention are even more acute than for the nation's cities and suburbs. The majority of rural manufacturing employment is housed in factories and offices owned by organizations located far outside Rural America.[35] These facilities tend to produce mature products that are often just as easily imported. Branch plants usually lack the ability to unilaterally invest in new technology, choose what product to produce, or determine its marketing plan. Rarely is onsite management capable of operating a branch plant as a free-standing operation. These facilities are at the end of a very long chain of communication that nominally links distant branch plants with the parent corporation's headquarters. When it comes to modernization, rural branch plant operations may be last in line to receive the needed resources and attention to ensure global competitiveness. Thus, the kinds of actions that must be undertaken by firms to be globally competitive are often beyond a branch plant's ability to carry out without external assistance. Therefore, rural communities have two key dilemmas: 1) how to manage the impacts of global change, and 2) how to develop and design the capacity to modernize rural factories. This does not have to lead to the subsidization of every existing firm. Warnings about "indiscriminately hugging smokestacks" rang true for many of the conference participants. But

The management in branch plants is incapable of making modernizing decisions on its own. Management lacks the ability to unilaterally invest in new technology, choose the product to produce, or determine a marketing plan for that product.

how are rural communities to select among possible candidates for assistance?

The modernization of American industry is a priority of the Clinton Administration. The National Competitiveness Act provides for federal-state partnerships to assist firms in modernizing. As Irwin Feller pointed out at the conference, implementation of the new law will include targeting small and medium-sized manufacturing firms and focusing on geographic areas that contain large concentrations of the nation's manufacturing employment. But neither of these two conditions include the majority of rural areas. The prospect of using targeting to allocate resources highlights the tension between what economists call "allocative efficiency" and the concern for retaining employment opportunities in the manufacturing firms of Rural America. In an era of continuing budget deficits, new federal initiatives are being tested against notions of efficiency regardless of their potential for geographic bias.

By emphasizing small and medium-sized firms in established manufacturing complexes, federal programs for industrial modernization are unintentionally biased against rural communities.

To the extent that rural manufacturing consists predominantly of branch plants, a national modernization program for Rural America must ensure that resources will be available to encourage the modernization of these existing plants. What rural areas need, according to conference participants, is the development of retention and promotion programs.

Modernizing: New skills and information needs in the public sector. How might an effective branch plant retention and modernization program work? A retention program designed to assist multilocational firms requires addressing problems at several levels and across several different time horizons. Most communities confront the problem of modernization at the moment of crisis: a major employer unexpectedly notifies employees that the plant is woefully out-of-date, underproductive, high-cost, and in danger of being closed down or significantly down-sized. At such a moment, decisions must be made quickly, often with insufficient information to even diagnose problems, let alone the knowledge to resolve them. According to Judith Kossy, at such a time local officials must be able to answer tough questions such as:

- Is the firm just cutting costs or does it have strategic interest in the local facility?

- Is the firm facing an unexpected downturn in its markets or is the parent firm planning to disinvest in the facility?

- Is there sufficient local capacity and commitment to make the effort to assist in plant modernization worthwhile?

- Does the local branch plant manager have enough autonomy to work with the community to improve the plant's competitiveness?

To ensure an appropriate expenditure of public resources, the public sector must have access to the needed information to be able to distinguish among the following situations:

A retention program designed to assist large firms requires addressing problems at several levels and across several different time horizons.

- Cases in which the corporation's intent is to move toward a high performance workplace, but it lacks the know-how and financial resources to implement the reorganization successfully;

- Cases in which the corporation is simply looking for a subsidy to make short-term, small-scale adjustments in production;

- Cases in which the branch plant lacks "fit" with the parent corporation's strategic plan and anticipated future trajectory; and

- Cases in which bad management has led to such deterioration that no amount of resources will be sufficient to modernize the operation.

In the best-case scenario, the parent corporation recognizes the need to modernize and willingly carries out such investments. In a second best-case, the firm recognizes the existence of a serious problem but lacks the know-how and resources to restructure the operation. Unfortunately for many communities, these two options are uncommon. All too frequently the facility has been left to decline steadily, having faced years of disinvestment and troubled management.

The ability to discern among these complex and often obscure scenarios is needed to ensure that local managers and workers are a part of the decisionmaking process to downsize and restructure operations. Once a facility is determined to be viable, it is necessary to work with the local plant manager to assess the corporation's vision in making these decisions. Often a local manager does not know what the parent corporation has in mind; thus, an external assessment of the parent's long-term plans is needed.

Retention and modernization programs require knowledge more likely to be found on Wall Street than on Main Street.

Capacity-building needs for economic development. Most local economic development professionals lack the training to determine a corporation's needs and strategies, let alone to evaluate such complex alternatives. The type of knowledge and development capacity increasingly needed by officials is more likely to be found on Wall Street than on Main Street. Global industry analysis, U.S. firm competitiveness analysis, parent corporation strategic analysis, and finally branch plant viability analysis are some of the new activities needed to participate effectively in modernization efforts. Economic development officials are increasingly aware, when faced with the need to assist in retaining and/or modernizing a branch plant, that these types of studies need to be done when pursuing retention and modernization efforts, but most currently lack the analytical skills to undertake such research. Consultants are often brought in to fill the gap, but rarely are their studies fine-tuned and sensitive enough to address local conditions. These analyses are just the first step. Once a community has this information, what does it do next?

Costs of modernizing and retaining employers. Retention and modernization of existing plants are likely to be costly endeavors, on the scale of industrial attraction efforts. Conference participants noted that financial assistance is not readily available to improve the competitiveness of existing facilities. Resources needed for such efforts include a) low-cost financing for new machinery and equipment and rehabilitative construction; b) resources for training; c) low-cost electricity; d) property tax exemptions and tax credits; e) technical assistance; f) improved transportation access; and g) assistance with plant redesign.

Negotiating such agreements and identifying such large-scale resources requires sophisticated intermediaries or brokers who can work with a wide range of community members. The examples of successful programs discussed at the conference suggested that local and/or state governments can act in this capacity, bringing together labor representatives, local levels of government, and essentially anyone who has something to bring to the table. This type of collaboration is not standard operating procedure. But increasingly, local development authorities are concluding that the scale of resources and technical knowledge needed to retain a major employer requires complex organizing.

Retention and modernization of existing plants are likely to be costly endeavors. Resources needed for such efforts include a) low-cost financing for new machinery and equipment; b) resources for training; and c) additional resources to reduce the variable costs of facility operations.

Programs to encourage companies to modernize on their own. A second policy area is the need to develop programs to encourage firms to modernize on their own before problems occur. This type of program will require resources to perform audits and other baseline assessments to determine how to convert a facility into a high performance workplace. To ensure the success of such efforts, conference participants suggested firm-level assessments of competitiveness—looking at a firm's strategy, how its departments interrelate, how scheduling is managed, how it pursues workplace training. Technical assistance for this type of assessment is available only sporadically at either the state or local levels.

In the long run, participants acknowledged that workable programs require an institutional framework that transcends existing practice. Several participants argued for the development of consortia of service providers to provide training and modernization services for industry clusters. Regional governments and/or regional institutions were seen as possible brokers for services, especially in the case of rural areas, because the level of information needed to carry out such efforts is substantial and likely to be beyond local capacity. A key element in any program is the availability of strategic information that facilitates an independent assessment of the problems facing an industry and its firms. As John Redman, staff economist at the Economic Research Service of the U.S. Department of Agriculture, added, "the ERS could be a clearinghouse for such information; ERS's staff economists could be the Wall Street analysts for rural communities and rural industries."

Rural communities need to develop the institutional capacity to form better partnerships with companies and to realign public services for greater flexibility. At present, for example, resources for training and other business assistance services are not organized geographically to meet the needs of large local employers. Service delivery areas are often defined on the basis of county boundaries, while a labor market's reach may include several counties or whole subregions of states. In most cases, rural areas simply lack the size and therefore the scale to mount an effective modernization program alone. While every county feels the need to operate a job service office or an industrial development authority, population scarcity dictates the occurrence of effective service delivery at the regional level.

To effectively undertake a branch plant retention program, rural communities need to develop the institutional capacity to form better partnerships with companies and to realign public services for greater flexibility.

A first step in meeting the needs of rural communities to launch effective modernization efforts is to recognize their unique economic history. Rural America is the nation's territory of large employers. Programs must incorporate the ability to work with branch plants. Such efforts are likely to be in excess of existing plans for program development. However, the lack of a branch plant capacity leaves much of the nation's manufacturing employment without the help needed to achieve global competitiveness.

High Performance Workplaces: Is Rural America Ready?

Remaking America's corporations for global competition. Some American factories are now among the most innovative in the world, especially with respect to new forms of labor-management relations that increase efficiency, reduce costly turnover, and incorporate workers in the continuous improvement of production processes. Whether these innovative approaches become commonplace in Rural America will depend upon the creativity of management, the flexibility of labor unions, and the willingness of hundreds of thousands of rural workers to take on new responsibility and accept new partnerships in the workplace. If any of these participants are unable to make this transition, Rural America may be left with little alternative but the low-wage, low productivity low road to competitiveness.

One key to the increased competitiveness of other nations has been their successful reorganization of the workplace—the shop floor, in many cases—to empower workers and increase their productivity. In response to accelerated competition, there is a growing movement by U.S. corporations to reorganize their operations by upgrading workers' skills and levels of workplace authority to achieve a state of high performance. Progress in transforming the workplace described by Eileen Appelbaum at the conference was based on her research at the Economic Policy Institute. Many of her findings were echoed by the comments of James Burge, Vice President for Human Relations at Motorola, Inc., a corporate pioneer in the implementation of high performance workplaces.

One key to the increased competitiveness of other nations has been their successful reorganization of the workplace—the shopfloor, in many cases—to empower workers and increase their productivity.

According to James Burge, an executive closely associated with Motorola's workplace reorganization:

> There was a time when we thought that a technology lead would give us a sustained competitive advantage, maybe for three or five years. But today technology only gives you an advantage for a matter of months. Our competition can take a new product that we put on the marketplace, put on new bells and whistles . . . and have it on the marketplace in a matter of months. We found our competitors could match us point for point on conventional competitiveness dimensions. What distinctive advantage will allow you to be a winner in this global

marketplace? How you invest in and utilize your human resources. Focusing on our customers and investing in our human resources is a sustained competitive advantage. Adopting a high performance workplace philosophy, emphasizing our employees and our customers is, from our perspective, really a story of survival.

If U.S. firms wish to compete in the global economy, it appears that they must abandon old ways of operating and pursue strategies that emphasize global leadership in quality and productivity.

If U.S. firms wish to compete in the global economy, it appears that they must abandon old ways of operating and pursue strategies that emphasize global leadership in quality and productivity. As competitive global production moves away from mass production—which was geared to long runs of standardized products produced in giant complexes at minimum cost—these high performance forms of reorganizing work become increasingly important. U.S. firms are at the beginning stages of this transformation. Given the original rationale behind the location of branch plants in Rural America—low land and labor costs of production and cheap but ready access to metropolitan areas—what is the likelihood that rural industries will be transformed into high performance workplaces?

Three strategies in pursuit of high performance workplaces. American firms, according to Eileen Appelbaum, are pursuing three differing strategies to counteract the new competitive pressures. Some are creating "flexible mass production." This strategy is based upon incremental adjustments to conventional industry organization through the adoption of flexible equipment, rather than specialized or "dedicated" equipment. With cost reduction still the driving force, firms reduce permanent employees and increase the use of contingent long-term labor contracts or temporary employees. These types of employees do not have access to the training, promotions, and benefits of other workers.

Other firms are attempting experimentation without long-term vision or commitment. These firms are often sincere in trying to achieve high performance capabilities, but they frequently lack either a clear vision for how to proceed or the resources to sustain implementation of new programs. Such firms often adopt numerous programs, following the latest consultant's advice.

A third approach is built around team production. Front-line workers are recognized as being key to the success of the organization. Employees are a critical part of the company's strategy for being successful; as a result, they are treated with greater respect and often given additional training. Workers participate in quality circles in refining the current work process. They also participate in developing procedures for accomplishing the work. In some cases, the American team model also builds on the unique American experience of collective bargaining that occurs at the enterprise level.

The team model emphasizes a basic reorganization of the production process. The amount of team autonomy varies widely. While some teams share responsibility for managing themselves, other teams remain supervised. There is variety in the degree of team self-management but in the most successful cases, teams have a greater degree of autonomy, a greater degree of responsibility for the production process, and in particular, greater independence in quality assurance. Quality improvement lies in the hands of production teams. The teams are empowered to recommend or to introduce directly the production line changes needed to improve quality.

American firms are pursuing three differing strategies to counteract the new competitive pressures. Some are creating "flexible mass production." Other firms are attempting experimentation without long-term vision or commitment. A third approach is built around team production.

All three kinds of high performance organizations exist both with and without unions. In the partnership version of these organizations, many of the companies are unionized.

According to Appelbaum, the pervasiveness of these different models varies in contemporary American industry. More than 75 percent of large firms in the U.S. have undertaken some kind of workplace innovation. More than 85 national unions have at least some locals that have participated in new workplace programs. Though pervasive, experiments with workplace transformation have yet to produce significant differences in the organization of work. Case studies suggest that between 25 and 30 percent of companies have made meaningful changes to least at one of their locations.

According to conference participants, the companies that have begun to implement these forms of high performance workplaces tend to share four characteristics.

- Many have suffered financial crisis or loss of market share. The survival of the firm must be in question.
- The firm must have the financial resources needed to pursue reorganization, for there are very high up-front costs associated with high performance work systems.
- The firm must be prepared to spend much more on training as a percentage of payroll.
- Vision and commitment have to be present at the top of the organization.

Companies most likely to implement high performance workplaces face severe crises that compromise the firm; have the resources needed to change; and have a CEO with vision and commitment.

Why have so few American firms adopted high performance strategies? Aside from problems associated with a lack of information, or know-how, the up-front costs of pursuing the high skill road, compared with companies going down the low-wage path, are very high. Unless there are broad-based incentives for firms to become high performance workplaces, the majority may not perceive these investments as being in their best interest. As Eileen Appelbaum noted, "There is an important role for government to provide the necessary training resources in instances where companies are not able to afford it for themselves."

Prospects for high performance workplaces in Rural America. What are the prospects for the development of high performance workplaces in Rural America? In response to this question, Jim Burge of Motorola, Inc. was encouraging. He asked the audience:

> How many of you have heard of the small towns of Elmira, New York, or Seguin, Texas, or Mt. Pleasant, Iowa? That's where Motorola has key factories. We've found in those factories that the transition to a well-educated, empowered work team has been easier. In some cases, the education level in these locations is much higher than what we're finding in our urban areas.

A closer examination of those locations reveals common features such as proximity to a major university or a military base. These unique attributes of places tend to translate into higher than average levels of education in the population and higher quality basic education systems. Proximity to metropolitan areas also provides rural firms with access to much larger labor markets of qualified employees. These same advantages are not always available to more remote, isolated rural areas.

The importance of training to a workplace's successful transformation to high performance underscores one of the major problems facing rural communities. As many participants noted, a key factor determining whether rural areas and disadvantaged communities are able to participate in the upgrading of American industry will be the availability of high quality training and other related development services. As suggested in the next section, our national training system is woefully inadequate to provide the continuous training required to sustain the "high road." Remoteness and long distances between places only make this problem more acute for rural areas.

Motorola, Inc. has found it easy to implement high performance work systems based around well-educated, empowered work teams in its factories located in small towns like Elmira, New York, Seguin, Texas, and Mt. Pleasant, Iowa.

Getting the Training Right: Can Rural America Do It?

Human capital is the missing link. For Rural America, the key to the high road, to high performance workplaces, and to the successful modernization of existing industry is the development of a skilled workforce. Perhaps the single most important component of a rural development strategy designed to contend with the effects of globalization is the availability of a flexible, effective training system. Yet, the nation lacks such a system. Thus, training is a national issue and not a problem confined to Rural America. In the realm of training, rural areas are at a decided disadvantage given distances between population settlements, small underfunded local governments, and a cultural history that has emphasized low wages over employee competency. But rural communities cannot solve the training problem on their own. Indeed, as conference participants argued vociferously, the federal government should have a significant role in the development of a national training system.

Cynthia Mugerauer, long-time administrator of Texas job training programs, and Barbara Baran, director of a Massachusetts model program for displaced workers (recently awarded special recognition for program design and implementation by President Clinton), reported to the conference on the experience of job training in their two states. The latter, Massachusetts, remains relatively heavily unionized and industrial, while the former, Texas, is largely rural and non-union.

Training is critical to the future of Rural America's economy. Rural communities cannot solve the training problem on their own. The federal government should have a significant role in the development of a national training system.

The lack of a national training system. It is common for Americans to think that vast job training and retraining programs are in operation and readily accessible to individual workers and communities. The alphabet soup in this area, including JTPA, EDWA, and OJT, is initially bewildering. Funded programs include the Job Training Partnership Act, state employment services, federal vocational education, adult education, and some community service programs. But America does not really have a training system, according to conference participants. Rather, we have a series of disjointed programs, encumbered with vast bureaucracy, designed to be passive or reactive rather than proactive, and possibly not focused on the workers who most need job training assistance. Given this highly fragmented system, it is perhaps no surprise that a large share of each program's resources is spent simply monitoring compliance to ensure that individuals do not receive services they do not deserve.

What the nation most needs, according to conference participants, is a training system that provides assistance in three areas: adult literacy; school-to-work transition; and retraining and transition assistance for dislocated workers.

The need for basic skills training. The first area of concern in terms of policy and priority is the need to make significant investment in adult basic education. According to the U.S. Department of Education, approximately 47 percent of the adult workforce is functioning at levels substantially below standard measures of literacy.

Employers indicate their desire for basic or general skills; they want the high school diploma to represent what it used to represent so that they can train people further without great difficulty. Training officials talk about the need to develop programs to achieve a high-skill, high-wage workforce without acknowledging that almost one-half of the population is not functioning at a level that would permit it to benefit from that type of curriculum.

School-to-work transition training. The second major training issue raised at the conference is in the area of school-to-work transition. The nation lacks a system with the ability to provide sufficient competitive training for students who are not bound for college. Seventy percent of the nation's high school graduates do not go on to college. In the past, non-college-bound students could find employment in factories. With factory jobs declining, the service sector neither provides sufficient numbers of full-time jobs nor pays a wage high enough for high school graduates to establish a lifestyle independent of their parents.

What the nation most needs is a training system that provides assistance in three areas: adult literacy; school-to-work transition; and retraining and transition assistance for dislocated workers.

Conference participants also were greatly concerned that most students cannot make the transition into the type of jobs and skills that are going to be needed in the future. This suggests very strongly a need for standards for occupational skills training. The private sector needs to be involved in defining those standards. Without private sector involvement in setting standards, training will lack the specifics needed to guarantee high school students an ability to function successfully in the labor market. This will only lead to a further bidding down of entry-level wages. A workable school-to-work transition program requires sophisticated labor market information systems that can track available jobs at the regional and local levels.

Adjustment assistance for the structurally unemployed. The third major policy area is the need to reexamine the nation's re-employment strategies for dislocated workers. To meet the challenge of globalization firms will have to make substantial investments to raise productivity. Such efforts are likely to result in significant job loss. Without effective programs designed to manage this change, communities may experience serious turmoil.

The problems of displacement are particularly acute in rural areas. Studies show that rural workers remain out of work longer after being laid off than urban workers. Rural manufacturing workers also have a more difficult time finding jobs with comparable wages to their previous jobs, given the small size of local labor markets and distances between settlements.

Current displaced worker programs are inadequate to meet the needs of the rural workforce. Existing programs were designed to solve the problem of skill mismatch between workers in the dying traditional manufacturing industries and jobs in the growing service and high-technology sectors. The key premises behind the programs were that:

- jobs in the new economy exist and can provide workers with comparable incomes so long as they attain the necessary skills;
- skills in areas of new job growth differ from and are of a higher level than those used in the previous job; and
- workers gaining these new skills will be in the workforce long enough to obtain an adequate return on their human capital investment.

Job displacement is an acute problem in rural areas. After losing a job, rural workers remain out of work much longer and return to far less satisfactory working conditions than their urban counterparts.

The fallacies of these assumptions and problems not anticipated by existing programs were discussed during the conference. In many cases, new jobs for dislocated workers simply do not exist, or the available jobs are so unstable or at such low wages that they do not provide comparable life circumstances for the recently unemployed worker. In addition, many dislocated workers already have skills equal to or higher than those being demanded in the economy, but they still cannot get hired. Finally, many dislocated workers are older workers with only ten to fifteen years of labor left before their expected retirement age. They cannot expect to capture the full returns to training, particularly if retraining means beginning a new job at an entry-level position and wage. An employment specialist at the conference notes that, in the absence of reasonable re-employment alternatives, some states are training older workers to be self-employed. Given the obvious dangers posed by such a strategy, it is not yet clear whether this can be a basis for a new rural vitality. According to Barbara Baran, "Increasingly, we are not teaching people occupational skills; we are teaching people survival skills."

The nation's dislocated worker services program should be redesigned to contend with dramatic changes in the labor market. At present, the program provides resources for short-term low-cost training and out-placement job search services. But the issues encompassed in the problem of dislocation are far more complex than were present during the original conception of JTPA. An effective dislocated worker program must now include: a) basic education training; b) occupational skills training; c) training in softer skills such as problem solving; and d) training to function effectively in the "new" workplace.

How far do we have to go to achieve workable dislocated worker programs? First and foremost, we must change the mindset surrounding the solution to the problem of dislocation. The current short-term low-cost training response does not match with the needs of occupational skills training. Effective occupational programs require four to six months of intensive training. Workers cannot afford to undertake such an investment without stipends. Occupational skills training, to be effective, must be matched with training in areas of basic education. As Cynthia Mugerauer noted, one-half of the nation's adults are not capable of completing skills training successfully without improvements in their basic levels of literacy.

The nation's dislocated worker services program needs serious redesigning to contend with dramatic changes in the labor market.

Designing an effective re-employment program. The design of training programs must be undertaken with the support and the participation of industry. Training programs must be based on industry-wide standards agreed to by employers. Standards should evolve into certification of job competency transferable between employers. Employer involvement must encompass a commitment to hire trained workers and maintain standards in hiring. To ensure employee commitment after training, employers must provide readily identifiable career ladders. Receipt of training resources by employers must carry commitment to permanently set-aside resources for ongoing training either onsite or offsite.

These ideas are not revolutionary. Firms that maintain a high performance work ethic already incorporate many of these elements into their human resources development and maintenance programs. To stem the possibility that these investments will be eroded by firms choosing the low road, government policy must establish training standards and create incentives (the carrots) for firms to participate in occupational skills development. Government must simultaneously limit access (the sticks) to training resources for firms unwilling to make long-term investments in the workplace. Finally, as the nation pursues industrial modernization programs, job training funds must be made available to support the efforts of these programs. At this time, training funds cannot be used in conjunction with most modernization efforts. Without occupational skills development and training, funds spent on new technology will not be matched with the requisite training needed to implement new workplace developments.

Government policy must establish training standards and create incentives for firms to participate in occupational skills development and simultaneously limit access to training resources for firms unwilling to make long-term investments in the workplace.

Special concerns of rural workers. For Rural America, the training problems and issues discussed at the conference were seen as more acute and magnified because of isolation and distance. The circumstances confronting rural workers originate with inferior educational options that serve to reduce their baseline skill levels and hence their employment readiness. In general, levels of education in the rural population are lower than in urban areas. Due to a shortage of qualified teachers to teach more analytical courses, rural students have insufficient access to courses in math and science. This results in lower test scores and causes fewer students to go on to college. Due to a lack of role models, rural students have lower aspiration levels than their urban counterparts.[36]

Second, vocational education (vo-tech) in rural areas is deficient. Few vo-tech programs offer variety or study and work options and fewer still offer course sequences that lead to an advanced understanding of a profession. These deficits feed into long-term problems of workforce training. Most jobs programs emphasize employment readiness skills. Workers are assumed capable of obtaining and doing a job, simply requiring a refresher course on how to apply for employment. In contrast, rural workers have serious remedial problems that require basic skills and occupational training before seeking re-employment.

Third, in general, rural workers are more likely to be displaced than urban workers. Once displaced, rural workers face greater difficulties in being re-employed and experience longer spells of unemployment. When finally re-employed, they experience greater earnings losses compared with their urban counterparts. To overcome these acute structural problems, rural workers need higher levels of remedial and basic skills training. Given the small size and geographic remoteness of rural areas, such training is more expensive because of an inability to take advantage of economies of scale in education.

Fourth, because of isolation, many remote communities cannot take advantage of the pooling of resources and cannot experiment with different types of service delivery strategies. More constraining, rural areas simply have fewer employment alternatives and therefore fewer training opportunities. The lack of population concentrations means that there are fewer service delivery agencies, fewer programs, and lesser program resources to meet skills training needs. Geographic isolation and distance also make the distribution of information about program innovations more problematic and less comprehensive. Areas of sparse population and huge expanses often cannot consolidate service delivery programs. According to a training specialist at the conference, one-stop shopping means many communities will simply be out of reach of program services given substantial distances to travel. Under current U.S. Department of Labor plans, the level of access formerly available to rural workers for training could now be reduced. Centralized services will require rural workers to incur longer travel times over longer distances to access centralized one-stop services. Innovations and experiments in distance learning and other technology-dependent models offer some potential for rural areas.

Rural workers are particularly disadvantaged in an era of high skill. Levels of education in rural areas are lower than in urban areas. Rural workers lack access to math and science courses. Rural students lack role models and therefore attend college less often than urban students.

In some cases, states are training people for self-employment. According to an employment and training specialist attending the conference, government programs are helping local citizens to learn to create small businesses, usually for some form of subsistence. This is not deemed a viable, large-scale model of economic development; rather, it is a supplement to existing development efforts. Clearly for rural communities, training without job development is an empty strategy.

Local Development Incentives: Can We Compete? Should We?

Rural America's long history of economic development efforts. Local economic development is a major industry in Rural America. Local development efforts, numbering in the thousands, have traditionally been led by chambers of commerce, electric utility companies, and state, county, and municipal development programs.

Economic development activities have been a mainstay activity in America's rural towns and small communities for most of this century. The history of rural development in the nation's premier rural regions, the Midwest and the South, clearly reveals the longstanding need for these efforts.

Current labor market programs and recent federal proposals for program consolidation lack the flexibility to address problems facing rural communities.

Initially settled as an agricultural region, the Midwest spawned hundreds of small towns outside metropolitan areas, to act as points of freight consolidation and small market areas. For the last fifty years, population in these small towns has stagnated or outright declined. As population dwindled and bedrock sources of economic development dried up, communities were left to consider uncertain futures. Problems associated with the loss of longstanding sources of jobs and income were exacerbated as regional service and retail centers evolved, leaving mainstreets devoid of activity.

The rural South, more densely settled than its Midwestern counterpart for most of this century, has struggled to overcome the unsavory distinction of being the nation's "low-wage" region. Traditionally an agricultural region, many small towns in the rural South rose up as collection and distribution points for people and goods. By the 1940s, extensive cultivation reduced the number of people in farming and simultaneously exhausted the soil, leaving behind the human remnants of an antiquated share-cropping system. Other parts of the rural South became early centers for labor-intensive manufacturing, particularly in textiles and tobacco.[37] Manufacturing was pursued as a means to lessen the volatility of prices for commodities such as cotton. In addition to a dwindling population, the rural South struggled to find alternative sources of economic development to re-employ geographically immobile idle farm workers.

States in the Midwest and South, centers of the nation's rural communities, have been engaged in economic development ventures for more than 60 years. Efforts to improve the image of a local community formed the foundation of most policy endeavors. Mainstreet programs, the creation of local development districts, and programs to "grow your own" locally based businesses are just a few of the many experiments embarked upon to rekindle and strengthen local economies.

The federal government also has played a critical role in attempts to foster development in Rural America. The agricultural extension program of the U.S. Department of Agriculture brought modern farming and management practices to the nation's rural communities. The Economic Development Administration of the U.S. Department of Commerce provided resources for infrastructure, local planning capacity, and new business development. Regionally based, federal-state organizations such as the Appalachian Regional Commission underwrote extensive regionwide infrastructure investments to support economic development. The Farmer's Home Loan Administration of the U.S. Department of Agriculture provided housing assistance in the form of low interest loans. Behind all of these programs was a belief that the greatest disadvantage facing rural communities was a lack of needed assets to either foster or compete for new job growth.

To combat dwindling populations and lost jobs in agriculture and mining, rural communities have pursued economic development activities throughout most of this century.

While these endeavors lifted some rural communities out of a persistent malaise, many more communities did not receive such assistance, and those that were recipients of infrastructure investments discovered that such efforts were necessary but not sufficient to spawn job growth and new economic activity. Early on, rural community leaders saw the benefit in, and the payoff from, attracting jobs from the outside.[38] Over the years, the federal government reduced its involvement in economic development, making financial resources increasingly scarce. Branch plant attraction became an economic development mainstay of many of the nation's poorer communities. How successful have these endeavors been?

Branch plant-chasing meets with mixed results. The "success" stories, such as the location of BMW production in South Carolina and of Mercedes-Benz in Alabama, attract widespread attention. But there is growing recognition across the nation, reflected in presentations and discussions at the conference, that the incentives offered by most communities will make little difference in the overall pattern of industry location, although they make very large differences to individual communities. There is also increasing concern that the magnitude of cut-throat competition among localities, many of them neighbors, to subsidize the location of new or expanded businesses (or to avoid the loss of a plant) has reached excessive proportions.

Economic development efforts have aimed at improving infra-structure, community image, and name recognition. But more than anything, branch plant attraction has been the mainstay of job development strategy.

Rural America has a long history of pursuing economic development opportunities through the attraction of outside investment. For some communities this has been a viable strategy. But for the vast majority of small, isolated places, attracting a branch plant remains a dream. The original rationale behind community incentives to lower the cost of doing business was to overcome the disadvantages of being isolated. But are the relative costs of doing business standing in the way of rural economic development today? Or are firms concerned about more basic factors such as local levels of education, infrastructure, transportation and market access, and the local quality of life? How well do rural communities compete in the context of these very important supply factors?

A local community that does not have adequate educational institutions, law enforcement, water and electricity, and air, rail, or highway access is at a significant disadvantage relative to the rest of the country. But according to conference participants, the debate about local capacity has, for a variety of reasons, become a "smoke screen" for more important issues associated with subsiding corporate investment, both domestic and foreign. Examples of plant location decisions discussed at the conference confirmed that firms knowingly play one community off against another, seeking subsidies to their production costs. Although these subsidies may shift plant locations a few miles one way or another, or from one local jurisdiction to another, they do not affect the basic investment decision. Therefore, whatever states and local communities give to an investor to lure them into their territory is, from the viewpoint of the United States, a wholesale "give away." The nation receives the investment regardless of local and state incentives. These subsidies function as "gifts" to corporations that set in motion further attempts to generate local subsidies. Such "gifts" also penalize those firms that do not play communities off each other to gain relocation, expansion, or continued production benefits.

Participants at the conference from state and local economic development organizations noted that the Mercedes-Benz case illustrates the difficulty facing small towns in Rural America. As one participant exclaimed, "small towns have so little city infrastructure, so little civic infrastructure, so few resources, and they receive so little serious help from state governments, that they have little chance. Rather than helping local communities to retain employment and grow from within, they [state governments] set up foreign offices and approach other states' large employers in the hopes of landing a branch plant."

There is growing recognition across the nation that the incentives offered by most communities will make little difference in the overall pattern of industry location.

Conference participants also noted that large mature industries with local political clout tend to use the threat of possible severe job loss to garner scarce public resources. So local communities are trapped between local employers demanding subsidies and potential new firms looking for "bids" from many sites.

The exaggerated "bidding" process exemplifies pursuit of the low road. The federal government facilitates bidding wars by allowing states to use federal resources to offset training and infrastructure costs at the time of location. This, combined with the states' ability to use their taxing authority to wave business taxes, results in "beggar thy neighbor" competition that reduces the available resources to reward existing firms for pursuing the high road through investments in worker training and the establishment of high performance work settings. The bidding wars occur for public projects, as well. The federal government has long pursued a policy of awarding federal installations to states that are the highest bidders. The Superconducting Super

Collider (SSC) was a good example. "Would it be impossible," one participant asked, "for the federal government, and the Department of Commerce, to lead a discussion among the states regarding needed discipline about how investments are attracted, and even to have a dialogue about distributing monies from various federal programs based on compliance with some kind of negotiated agreements among the states?"

Most participants agreed that it would be hard for competing states to police themselves to refrain from pursuing attraction efforts. Federal intervention to set guidelines and to constrain cut-throat competition would be resisted, but it may be the only solution.

The exaggerated "bidding" process exemplifies pursuit of the low road. The federal government facilitates bidding wars by allowing states to use federal resources to offset training and infrastructure costs at the time of location.

Rather than trying to attract outside investment, many rural communities might better direct their development efforts by concentrating on retention of existing plants. Two major roadblocks stand in the way of the development of successful, viable retention programs. First, political officials focused on the next election seek to demonstrate that they have brought in new jobs. In most states and localities, new job creation is held out as a tangible example of a politician's worth. Analysis of expenditures indicates the vast majority of dollars is spent on recruitment. Second, economic development policies tend to be geared toward the needs of firms at start-up time. In many cases, regulations prohibit the use of federal and state resources for retention efforts. Retention program benefits are simply harder to sell because they do not necessarily generate visible changes in the local economy in the form of new jobs or new investment.

As with every policy proposal to aid local development efforts, retention efforts are fraught with uncertainty. The biggest hazard is the prospect that communities embarking on a retention scheme lack the ability to discern between firms that have long-term job retention potential and those that simply wish to use public resources to assist in downsizing, with no commitment to productivity-increasing investments.

While most of the conference discussion centered on local development policy and emphasized the deleterious effects of recruitment and local rivalry, nonetheless, there was also considerable concern about rural communities' need for infrastructure development and enhancement and local capacity-building. Hundreds of rural communities in the U.S. currently lack public water and waste water systems. Some communities still operate with 1950s-style telecommunications infrastructure that prohibits digital communications and hence electronic data transfer. Sparsely populated areas of the country are remote from adequate health care, emergency medical care, and educational services. Many small towns lack even part-time public officials to manage local civic affairs. These deficiencies leave rural communities unable to cope with economic and social change. Without persistent attention to these problems, the effects of globalization will be just one more cruel insult on top of an already difficult and longstanding situation.

TRANSFORMING RURAL AMERICA FOR THE AGE OF GLOBALIZATION

States have tried unsuccessfully to reduce interstate rivalry for new jobs. There is a role for the federal government in regulating this type of activity.

This broad-ranging, two-day conference focused on the need to develop public policy at federal, state, and local levels. The intensive, final half-day of debate over policy led to a quasi-consensus with respect to policy needs in 15 broadly defined areas. These needs are presented here, beginning with the most general national concerns and ending with the most local concerns.

1. Recognize that changes from globalization will be profound.

Domestic policy discussions should be premised on the recognition that globalization is changing dramatically the nation's fundamental environment of competitiveness. NAFTA and GATT have been designed to promote fundamental changes in all of the participating economies. Federal social and economic policy must be sensitized to this reality, rather than attempting to pretend—for the sake of political support—that the changes will be minimal.

One method for ensuring broader discussion of these issues is to require that all future negotiations of trade policy changes include not only the industry representatives consulted for NAFTA and GATT but also the full participation of representatives of organized labor, environmental groups, and regional councils of governments.

More than one hundred programs and dozens of agencies have some jurisdictional responsibility for programs that impact rural communities. An overall coordination of such efforts is needed to ensure that functions are not duplicated and that a single voice represents rural issues at the Executive level. For Rural America, the agency with the most responsibility for rural development issues is the U.S. Department of Agriculture (USDA). USDA should be among the participants representing rural interests in discussions of the effects of globalization.

2. Understand the regional impacts of international trade policies.

The debates over NAFTA and GATT, as well as the general discussion of globalization processes, have assiduously avoided analysis of the widely differing regional impacts of these processes. The European Community has developed and used extensive techniques for predicting the regional impact of even relatively small changes in its programs. There is no technical reason why federal support for estimates of comparable impacts in the United States could not produce equally useful information. Political motives for avoiding such analysis, though understandable, leave local areas unprepared for the consequences (whether positive or negative), unable to anticipate them, and less capable of developing adequate local responses.

One method of ensuring the pursuit of this goal would be to require all future teams of negotiators for modifications of trade policies to include explicit representatives of local and state governments from each major region of the country, as well as the representatives from the industry groups who normally have participated in such discussions.

For Rural America, such efforts must be buttressed with a requirement that state and local government representation include explicit capability to speak to the particular circumstances of rural communities. Considerable effort will be required to broaden state and local governments' focus to include the concerns of rural areas.

3. Review the effects of federal policy on global competitiveness.

Existing federal policies should be reviewed to ensure that the unintended effects of policies do not encourage the exportation of capital and production. Although presumably not widespread, former policies of federal and international development agencies such as USAID have been criticized for using federal funds to foster economic development through industry attraction in less developed countries. In other cases, U.S. corporate tax policy provides incentives that have selectively benefitted industries, such as the pharmaceutical industry, for example, leading them to invest in manufacturing employment in Puerto Rico. While such programs may be laudable from the standpoint of U.S. security policy, they tend to have deleterious effects on the U.S. jobs base.

For Rural America, a review of existing policies would be important to determine whether there has been an unintentional bias toward targeting industries that are labor-intensive and most likely to be part of the traditional rural employment base.

4. Continuously re-evaluate the conditions under which access to our markets is allowed.

Trade liberalization at this time does not necessarily have to mean unthinking continuation of tariff-free, barrier-free access to our markets. If our international competitors fail to provide fully competitive access to their markets, privileged access to our markets should not be continued. This may mean, first, recognizing that we must continuously review the conditions under which we give foreign producers preferential (tax-free) access to our markets. It also may mean establishing clear guidelines for the continuation of our adherence to NAFTA, GATT, and other "globalizing" agreements. For Rural America, this is important, particularly in instances where foreign governments do not force their domestic firms to adhere to international trade law that then undermines traditional rural industries. At the same time, historically, U.S. trade policy has protected globally weak industries without assurances that firms competing in vulnerable industries will modernize and upgrade over time. Before any type of special treatment is provided to domestic industries, a review of previous modernization efforts should be required to determine whether firms have used federal protection to avoid upgrading and improving the employment conditions of rural workers.

5. Discourage trade that implements the "low road."

Although lower wages may be an important element of comparative advantage for poorer countries, NAFTA and GATT must be modified to force adherence to minimum labor and environmental standards. It is not sufficient to look solely at the quality of a product as it crosses the border when judging its admissability into the U.S. market. Products produced by child labor, by prison labor, and by labor deprived of basic rights to organization and representation also must be discouraged, blocked, or taxed.

Similarly, although it may not be acceptable to force the implementation of identical environmental standards on countries at much lower levels of development, evaluation of production methods and processes must be incorporated into trade regulations to discourage, block, or tax those products manufactured under environmentally dangerous conditions, in violation of the environmental laws of the exporting nation, or that clearly contribute to the competitive degradation of the environment worldwide.

Global standards are particularly important to Rural America and industries located in rural communities because these industries are usually in direct competition with foreign imports. Advances in market share due to violations in labor standards undermine the competitiveness of rural employers and encourage the low road.

6. Develop a new national information system on global competitiveness.

The federal government has an important role to play in developing a new information infrastructure on competitive industrial best-practices worldwide. Only the largest firms are likely to have an independent capability to follow best-practice trends. The privatization of this information leaves communities with significantly lower ability to assess the relative competitiveness of local firms, especially when they seek local assistance for retention and modernization.

Federal information systems could be developed to convey a wide range of information on technology, training, productivity, and relative cost structures. Or, federal assistance could be given to the non-governmental organizations best equipped to develop and distribute that information. The economies of scale in gathering and monitoring, combined with the public goods nature of the product, warrant significant public investment beyond what is optimally undertaken by the private sector.

Dissemination of this information could take two forms. First, seminars would be coordinated for the owners and technicians in industry on the latest practices, newest technology, and changes in the production practices of global competitors. Second, seminars would be developed for local public and private development organizations on the evaluation of the competitiveness of local industry in the light of global best-practice.

Rural firms and communities are particularly disadvantaged when accessing current information because they have fewer public institutions to produce and disseminate technical information about changes in industries. Special efforts are necessary to ensure that rural communities have access to sophisticated, technical information.

7. Encourage the formation of new institutions to enhance productivity.

In recent years, federal efforts have encouraged "associative behavior" by firms in the development of new products and new technologies. MCC (the microcomputer design and applications consortium) and Sematech (an association of producers focusing on chip manufacturing technology) are two strong examples. There is a comparable need for encouraging, and funding partially, new associations of industries focused on enhancing workplace organization, developing new modes of worker-management relations, and improving productivity on the shop floor and in the office through better organization and cooperation.

New federal programs should lead to the establishment of a forum for public and private institutions that have successfully pursued elements of high performance work systems. Resources should be allocated to ensure widespread dissemination of successful examples of workplace transformation.

Rural America will require special program designs to ensure the success of such efforts as networking and modernization services. Distances between small population concentrations and groups of firms will require creative solutions to foster and accelerate cooperative behavior within local economies.

8. Stimulate the research most needed for designing global competitiveness strategies.

There is a great need for detailed, interdisciplinary studies of industrial practices, the global state of technology development, and the opportunities for improvements in production technology designed to enhance national productivity. These studies could be done at universities as well as other government and private research organizations. This requires direct financial support, because currently there are few rewards for the researchers themselves in the academic or scientific community for applied technical and industrial research of this sort. Research must go beyond the confines of physical science and engineering laboratories to incorporate economic, geographical, and sociological changes that determine whether laboratory advances become the continually changing set of global best-practices.

These studies, organized at the level of sectors and industries, would then permit both individual firms and local development groups to conduct pro-active analyses of the state of their plants, firms, and local economies, anticipating the impact of change rather than waiting until it has swept over them.

The programs needed in this area also should collect and distribute the studies presently undertaken by industry groups, industry associations, and groups of firms. Dissemination of information from large firms to small and medium firms, unable to support research personnel, need not involve strategic trade secrets. But the natural tendency of large firms to protect that information provides a logical basis for producing it publicly and disseminating it widely, in the interest of both greater competition and enhanced development of these sized firms.

Federal and state government sponsorship of such information collection, analysis, and dissemination programs must be sensitive to the special problems of rural areas. Branch plants of non-locally-owned firms are particularly difficult to study and acquire information about. Rural development and public officials will require training to be effective in utilizing such technical information. Local officials with access to such information should be expected to disseminate it to local groups working with communities and industries to promote retention efforts.

9. Redesign our national training systems.

Current federal training programs are highly fragmented and fail to deliver the needed training resources and competencies for a high-skill future. Federal programs should be redesigned to provide comprehensive assistance to all of the nation's workers; programs should be designed especially for workers most at risk at both ends of the spectrum of ages, workers in their teens, and workers over 50.

National efforts to encourage industrial modernization must be coupled with training resources. Firms should be given assistance to the extent that they are willing to invest in upgrading human resources.

Moreover, firms should be rewarded for behavior that clearly moves toward "high road" solutions. Advanced training should be rewarded more than lowest level basic training; training that is coupled with modernization of technology and equipment should be rewarded more than training for low-skill low productivity work.

Federal training resources should be freed from restraints with regard to their use among workers in existing firms that link training to modernization and expansion.

Rural America needs programs that provide remedial and longer term training to overcome longstanding deficiencies in basic education and skills development. Federal economic development efforts must make provisions within newly proposed modernization programs to ensure the flexibility needed to assist rural communities in receiving coordinated training services in a decentralized fashion. Moreover, new programs must take into account that rural areas have a much larger share of total employment in large, non-locally-owned production facilities than do more urban areas of the country.

10. Train to benchmark standards, not just to local production needs.

Training, especially when subsidized by federal and state resources, may be used by firms simply to increase the productivity of workers in terms that benefit a specific production process or product line. There was consensus in the conference, however, that training must be focused on concrete, explicit benefits for workers. That might mean, for example, that the training would not be reimbursed unless the workers could demonstrate achievement of skill benchmarks.

Similarly, these skills need to be linked to "best practices" in the industry, rather than to technologically obsolete or low-productivity production processes. Determination of suitable best-practice evaluations and of benchmarks or standards for training is an appropriate function for regional commissions or organizations that focus on the potential future global competitiveness at the regional level.

The need for national training standards is critical to Rural America's long-term competitiveness. In many labor-intensive industries, firms have chosen to automate rather than upgrade rural workers' skills. At the same time, to attract and retain more modern industries, higher skills and standard levels of performance will be required in rural communities. Incentives must be created to encourage existing employers to adopt best-practice procedures to ensure that workers are being trained on and trained in modern workplace equipment and practices.

11. Re-evaluate the local economy.

Local communities, both urban and rural, must first understand the nature of the global economic changes that are affecting them. This calls for new, brutally honest analysis of the strengths and weaknesses of the local economy when viewed in the global context. Federal and state governments could support these efforts best by providing new forms of technical assistance, perhaps converting the Economic Research Service of the U.S. Department of Agriculture or an office in the Economic Development Administration of the U.S. Department of Commerce into the local public equivalent of the major accounting firms or the Wall Street analysts who perform comparable technical services for the private sector.

Rural America currently lacks access to information about rural industries. In the past, most rural communities were content to attract firms with little knowledge about the longevity and problems facing firms in recruited industries. This type of information is critical to being able to anticipate changes in local employment levels. Rural communities need this type of information to work effectively with their large employers.

12. Redesign state and local economic development policies.

State and local governments must be actively discouraged from engaging in "cut-throat" competition for the location of new industries. Massive subsidies to individual industries impose opportunity costs on other industries and other state programs, and on the development of broad training and education programs to enhance all production in the area, including that of preexisting firms that the community seeks to retain. State and local governments competing against one another should be provided with evidence of the viability of alternative forms of economic development, including collaborative training and technical assistance to assist in building necessary social capital and institutions.

The use of federal funds for firm-specific training to encourage firms to move from one location to another within the U.S. should be barred. There is considerable room for a constructive federal role in opening up, moderating, and even mediating the competition between localities for new firm locations.

Policies to encourage retention and modernization of existing firms need to be re-emphasized. But just as conference participants discouraged indiscriminate "smokestack chasing," they also warned against indiscriminate "smokestack hugging." One means for distinguishing between demands for local subsidies to retain firms that are becoming obsolete, on the one hand, and opportunities to encourage modernization of existing firms on the other, is to require that tangible "best-practice" modernization be a precondition for support.

Finally, in the new global economy, there is no reason to discriminate against foreign-owned firms in the allocation of federal, state, or local resources. Communities must learn to recognize that their traditional firms, once locally owned, are less "national" now than ever before and that foreign-based firms can provide benefits locally that are unlikely to differ tangibly from those of local owners.

For Rural America, movement away from industrial recruitment will require the provision of viable alternative models of development based on tangible results. The development of new attitudes in the development community also will be required. Local and state development officials will have to be reassured about the benefits of retention over recruitment programs. For rural communities, job development is critical to the success of programs attempting to integrate training and modernization efforts. Foreign direct investment (FDI) is a critical source of new manufacturing jobs, but its current geographic orientation is skewed away from rural areas. Special incentives may be necessary to encourage FDI to filter to rural communities. Such efforts could be profitably coordinated with modernization and retraining efforts to increase the competitiveness of rural communities and workers.

13. Encourage regional cooperation on new and retained industrial locations.

Regional cooperation for economic development, rather than cut-throat competition, can be encouraged in a number of ways. There are now examples in the Southeastern U.S. of multi-county compacts to share the tax revenues generated by industrial parks, rather than compete for every new firm. This collaboration can lead to much more reasonable regional policies coordinated among states for providing the broad-based development assistance that leads to increases in regional competitiveness without costly and distorting subsidy packages to industry that would have located, or expanded, in that region in any event.

For Rural America, regional cooperation is critical to the successful implementation of new training and modernization programs. Such efforts at coordination are likely to be met initially with suspicion and apprehension, particularly if it is perceived as a reduction in local resources. Federal programs such as those under the jurisdiction of the Economic Development Administration of the U.S. Department of Commerce should be encouraged to sponsor demonstration programs that foster regional cooperation. Such demonstration efforts can help reduce the resistance that might arise in early efforts to foster regional cooperation.

14. Involve local community groups in the development decisions.

Conflicts at local levels over the nature and direction of economic development are frequently exacerbated by the failure to involve community organizations in the decision-making process. A rapidly growing body of experience suggests that local participation is not only critical to the retention of existing facilities but also essential to the creation of the best possible community climate for economic growth.

Although frequently seen as obstacles to the decisions to be made by firms, chambers of commerce, and local governments, local community groups, environmental groups, and organized labor groups are capable of mobilizing forces to support the appropriate use of local resources. As representatives of those in the community who stand to benefit or lose most from decisions about the use of local development resources, their voice is ignored at great peril.

For Rural America, this requires identification of appropriate representatives of citizen groups to participate in development projects. No single constituency represents special needs and concerns of rural communities across the country. One area of particular concern is the restriction placed on groups eligible to apply for federal funds under the Economic Development Administration

(EDA) programs. At present, only certified public authorities can apply for planning and development funds. This eliminates the participation of community groups and community development corporations (CDCs). EDA program eligibility should be expanded to include legitimate organizations that represent communities and demonstrate an ability to deliver economic development services in rural communities.

15. Integrate comprehensive local assistance efforts.

Comprehensive modernization programs need to link technology transfer with training, workplace enhancement, and financing. This may mean requiring evidence of employee involvement to receive federal and state resources. Firms receiving assistance should be expected to participate in programs over extended periods and should be prepared to do more than just train workers, buy new machinery, or re-organize the workplace. This will allow effective linking of modernization strategy, business planning, and human capital development.

For Rural America, this means the development of benchmarks to show program outcomes as means of identifying and rewarding effective and comprehensive programs. Past practice has largely reflected community expenditure of resources with no guarantee of an expected return on such investments. The development of comprehensive programs linking modernization with training and economic development efforts will require special targeting to take into account the ownership and industrial structure of rural economies.

Globalization presents many positive opportunities for residents of America's rural regions and small towns. The ability to take advantage of such opportunities hinges on local capacity to change effectively in a dynamic environment. Federal and state policy has an important role to play in positioning the nation's communities advantageously in light of global trends. The emerging era requires new policy, new social and environmental compacts, and a new vision of the nation's communities in the global economy. This is the best moment for taking up this challenge.

TRANSFORMING RURAL AMERICA FOR THE AGE OF GLOBALIZATION: SUMMARY OF RECOMMENDATIONS

1. Recognize that changes from globalization will be profound.
2. Understand the regional impacts of international trade policies.
3. Review the effects of federal policy on global competitiveness.
4. Continuously re-evaluate the conditions under which access to our markets is allowed.
5. Discourage trade that implements the "low road."
6. Develop a new national information system on global competitiveness.
7. Encourage the formation of new institutions to enhance productivity.
8. Stimulate the research most needed for designing global competitiveness strategies.
9. Redesign our national training systems.
10. Train to benchmark standards, not just to local production needs.
11. Re-evaluate the local economy.
12. Redesign state and local economic development policies.
13. Encourage regional cooperation on new and retained industrial locations.
14. Involve local community groups in the development decisions.
15. Integrate comprehensive local assistance efforts.

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GLOBALIZATION AND THE NORTH AMERICAN FREE TRADE AGREEMENT: Impact on Rural Communities

Wye Woods Conference Facility, The Aspen Institute

October 7-9, 1993

Presenters and Paper Titles

Eileen Appelbaum, Associate Research Director, Economic Policy Institute, Washington, DC

Policy Levers for High Performance Production Systems (with Rosemary Batt)

Eileen Appelbaum joined the Economic Policy Institute as Associate Research Director in 1991. Formerly she was Professor of Economics at Temple University and spent several years as a Guest Research Fellow in the Labor Markets and Employment section of the Wissenschaftszentrum Berlin. She recently published *The New American Workplace*, a book on high performance work systems in the U.S. (1994).

Barbara E. Baran, Director, Massachusetts Re-Employment Assistance Program (REAP), Boston, Massachusetts

Dislocated Worker Programs in the U.S.: Do Our Solutions Address the Rural Problems?

Since 1989, Barbara Baran has served as the director of REAP, Masssachusett's program for displaced workers. REAP and its Industrial Services Program have been the recipients of several national awards for innovation and excellence in government.

James D. Burge, Corporate Vice President and Director of Government Affairs-Human Resources, Motorola, Inc., Washington, DC

The Transition to Empowered Problem Solving Teams at Motorola

James Burge served as Motorola's Director of Personnel, Europe (Geneva, Switzerland), Vice President and Director of Personnel, Communications Group (Schaumburg, Illinois), and Corporate Vice President and Director of Personnel—U.S. (Schaumburg, Illinois), before accepting his current position.

Michael E. Conroy, Associate Chairman, Department of Economics and Director, Latin American Economic Studies Program, The University of Texas at Austin, Austin, Texas

Who Are the Global Competitors? Location Incentives and Competitive Conditions in Latin America, the Pacific Rim, and Europe

Michael Conroy is an economist who specializes in urban and regional problems. He is also Co-Director of the Latin America 2000 project, a collaborative effort between the University of Texas and the University of Illinois to develop new insights into the now-prevailing Latin American development paradigm of privatization, deregulation, and changing property rights.

Peter Dicken, Professor of Economic Geography, University of Manchester, Manchester, England

Globalization Processes and Local Economies

Peter Dicken's major research interests are global economic change and the spatial behavior and strategies of transnational corporations. His book, *Global Shift: The Internationalization of Economic Activity* (second edition, 1992; Guilford Publications, New York) is used extensively throughout the world.

Amy Glasmeier, Associate Professor of Geography, The Pennsylvania State University, University Park, Pennsylvania

The Corporate Link: Globalization and Rural Economies in the 1990s

Amy Glasmeier has published widely on diverse topics. She is the author of *The High-Tech Potential: Economic Development in Rural America* and the co-author of *High-Tech America*, with Ann Markusen and Peter Hall. She recently completed a book with Marie Howland, *From Combines to Computers: The Role of Services in Rural Economic Development*, to be published by SUNY Press.

Judith Ann Kossy, President, Western New York Economic Development Corporation (WNYEDC), Buffalo, New York

Regional Impacts and Responses to Global Competition

Judith Ann Kossy is the CEO of a state public authority responsible for regional economic development in a five-county region. She coordinates local, state, business, labor, and education organizations in a range of economic issues concerning public financing packages, industrial sectors, technical assistance to industries, and research.

Cynthia Mugerauer, Executive Director, State Job Training Coordinating Council, Dallas, Texas

Employment and Training Policy in a Global Era

Cynthia Mugerauer was a planning supervisor for Job Training Partnership Act (JTPA) programs with the Texas Department of Community Affairs and Texas Department of Commerce before becoming the Executive Director of the State Job Training Coordinating Council.

Raymond Vernon, Clarence Dillon Professor of International Affairs Emeritus and Herbert F. Johnson Professor of International Business Management Emeritus, Harvard University, Cambridge, Massachusetts

The Globalization Trend

Before joining the Harvard faculty in 1959, Raymond Vernon had a long career in the Securities and Exchange Commission and the Department of State, dealing with issues in the postwar recovery of Japan and Europe. He is currently a member of the Economic Policy Council of the U.S.-United Nations Association, a Fellow of the American Academy of Arts and Sciences, a Fellow of the Academy of International Business, and a member of the Council on Foreign Relations.

William F. Winter, Esquire, Senior Partner, Watkins Ludlam and Stennis, Jackson, Mississippi

Responding to the Global Challenge: Rural Community Capability in an Era of Economic Change

William Winter has a long and distinguished record of public service in the southern United States. He was the Governor of Mississippi from 1980 to 1984. Mr. Winter also served as the Chairman of the Southern Regional Education Board, Southern Growth Policies Board, Appalachian Regional Commission, and Commission on the Future of the South. He is the immediate past Chairman of the Foundation for the Mid South.

Participants

Joe Alvarez, Political Director for the Amalgamated Clothing and Textile Workers Union, New York

Mr. Alvarez has been active in the American labor movement for many years. Prior to joining the national office, he was a local organizer and district manager for ACT^2 in the Central North Carolina District.

James M. Campbell, Jr., President, Sew Special, Inc., Asheboro, North Carolina

Mr. Campbell has been in the clothing industry for many years. He operates two plants in North Carolina. His work place has successfully implemented many of the most important innovations in the modern clothing industry.

Ernesto J. Cortes, Jr., Southwest Regional Director of the Industrial Areas Foundation (IAF), Chicago, Illinois

Prior to his employment at the Industrial Areas Foundation (IAF), a nonprofit organization founded in Chicago, Illinois, by the late Saul Alinsky, Ernesto Cortes compiled an extensive record of activism in advocacy movements. His accomplishments in the field of community organizing were recognized by the MacArthur Foundation, who named him a Fellow in 1984.

Wayne Fawbush, Deputy Administrator for Program Operations, Farmers Home Administration, United States Department of Agriculture, Washington, DC

Prior to joining USDA, Mr. Fawbush was an Oregon state legislator who helped establish a number of important economic development programs in the state.

Irwin Feller, Director, Graduate School of Public Policy and Administration and Professor of Economics, The Pennsylvania State University, University Park, Pennsylvania

Irwin Feller's research centers on the economics of technological change; the evaluation of federal and state technology programs; the economics of academic research; and government-university-industry R&D relationships.

Alvaro Gonzalez, Rural Development Specialist, Rural Development Administration, Washington, DC

Mr. Gonzalez holds a master's degree in economics from the Massachusetts Institute of Technology. He is responsible for assisting in the formulation of policy initiatives at USDA.

Steven Hertzenberg, Labor Economist, United States Department of Labor, Washington, DC

Dr. Hertzenberg has been actively engaged in the development of national labor policy and was a key staff person during the formulation of the labor side agreement of the North American Free Trade Agreement (NAFTA).

Mac Holladay, Chief Operating Officer, Governor's Development Council, Atlanta, Georgia

Mr. Holladay has had a long and illustrious career in economic development. He has worked for the governors in the States of Mississippi, Alabama, and North Carolina in the development of progressive state development policies.

Robin King, Visiting Economist, United States Department of State, Washington, DC

Dr. King is an expert in Latin American development. She has been working as an advisor in the State Department on issues related to the North American Free Trade Agreement (NAFTA) and Mexico. Prior to that, Dr. King was a senior professional in the banking industry.

Thea Lee, Economist, Economic Policy Institute, Washington, DC

Dr. Lee is an economist working on trade and national economic development issues. She has published widely on the subject of the North American Free Trade Agreement (NAFTA).

Paul London, Deputy Undersecretary for Economic Affairs, United States Department of Commerce, Economics and Statistics Administration, Washington, DC

Mr. London has served in several administrations and is currently responsible for the statistical and analytical programs at the U.S. Department of Commerce.

Richard McGahey, Staff Director, Joint Economic Committee (JEC), Washington, DC

Dr. McGahey is the current staff director of the JEC. Prior to joining JEC, he was the Senior Economist on the Labor Committee in the Office of Senator Edward Kennedy. He was a former staff aide to New York Governor Mario Cuomo.

David McGranahan, Supervisory Sociologist and Chief of Human Resources and Industry Branch, Agriculture and Rural Economics Division, Economic Research Service, United States Department of Agriculture Washington, DC

Dr. McGranahan has had a long and illustrious career in the field of rural development. He is the author of several publications, including *Education and Training in Rural Economic Development*, published by the U.S. Department of Agriculture.

Bob J. Nash, Undersecretary for Small Community and Rural Development, United States Department of Agriculture, Washington, DC

Prior to taking up residence in Washington, DC, Mr. Nash worked in Arkansas for then Governor Clinton on economic development policy. Mr. Nash has also worked for the Rockefeller Foundation in Arkansas.

Jock Nash, Washington Counsel, Milliken and Company, Washington, DC

Mr. Nash is the chief lobbyist for the Milliken Corporation, the nation's largest textile manufacturer.

William Nothdurft, Nothdurft and Associates, Bethesda, Maryland

Mr. Nothdurft is a professional writer with numerous books to his credit, including *Going Global*, published by the Brookings Institution, Washington, DC.

Chris Page, Program Officer, Rural Poverty and Resources, The Ford Foundation, New York, New York

Mr. Page is a program officer at the Ford Foundation.

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Mr. Raftery is a consultant to firms in the automotive parts industry. Before becoming an independent consultant, Mr. Raftery was the President of the American Automobile Parts Association.

John Redman, Research Economist, National Institute of Standards and Technology, Washington, DC

Prior to joining the National Institute of Standards and Technology, John Redman was a staff economist at the Economic Research Service, United States Department of Agriculture, and worked with Congress on development issues.

Joel Rogers, Professor of Law, Political Science, and Sociology, University of Wisconsin-Madison, Madison, Wisconsin

Joel Rogers has published in the areas of democratic theory, comparative political economy, and American politics, with recent emphasis on problems in labor relations and economic upgrading. His publications include *On Democracy, Right Turn: The Decline of the Democrats and the Future of American Politics*, "Divide and Conquer: Further Reflections on the Distinctive Character of American Labor Laws," and *Works Councils* (forthcoming).

Jack Russell, President, Modernization Forum, Dearborn, Michigan

Prior to joining the Modernization Forum, Mr. Russell was a founding member of the State of Michigan's Industrial Modernization Program. He has worked for many years in the area of employment retention and industrial modernization, particularly as it relates to the U.S. automobile industry.

Jeff Thompson, Research Economist, Appalachian Regional Commission, Washington, DC

Mr. Thompson is a professional planner. Prior to joining the Appalachian Regional Commission, he worked on a study of branch plant development impacts in rural communities. He is a former banker.

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