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*Proceedings from the
Buffalo Branch's May 1
conference:*

*The Untapped
Urban Market:
Attracting Business to
the Inner City
are now available on our
website.*

Roundtables Explore the Challenges Faced by Rural Economies

Many Americans view rural life as a simple agrarian existence in a pastoral setting of family farms and picturesque small towns. Rural communities have always been more complex than imagined, however, and they now diverge quite dramatically from popular conceptions. The same forces transforming metropolitan economies—globalization and rapid technological change—are affecting the countryside, leaving rural America to face a host of new challenges. These challenges warrant a significant rethinking of rural economic policy, according to Mark Drabenstott, vice president and director of the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City. If rural America is to maintain its quality of life and compete for economic activity, Drabenstott observes, Americans must change the way they view rural communities and these communities in turn must change the way they see themselves.

The Federal Reserve Bank of New York's Buffalo Branch and Office of Regional and Community Affairs conducted a series of roundtable talks this past May in upstate New York to put these economic challenges in perspective. The talks, cosponsored by the Independent Bankers of New York State, the North Country Alliance, and the Rural Housing Coalition, were held to determine what issues most concern the region's rural communities and to give participants an opportunity to share information that might help in planning economic growth strategies. The roundtables took place at four New York sites: Canton in the North Country Region, Ithaca and Canandaigua in the Finger Lakes Region, and Ellicottville in the Southern Tier of western New York. The participants, representing various parts of the state and a broad range of interests, included economic development professionals, elected officials, community advocates, bankers, farmers, and other business owners.

A Changing Rural America

Drabenstott and Richard Deitz, a regional economist at the Buffalo Branch, began each talk by reviewing the current economic trends affecting rural communities in upstate New York and across the United States. Drabenstott noted that employment growth rates in rural communities closely matched those in metropolitan areas during the expansion of the 1990s. Between February 1991 and November 1999, job rolls in rural areas increased 16.2 percent, just shy of the 16.8 percent gain in metropolitan areas and the 16.7 percent gain in the nation as a whole. Drabenstott indicated, however, that while the aggregate employment numbers are encouraging, job growth across rural America has been very uneven, with the bulk of job gains occurring in only 40 percent of all rural counties. This disparity in growth has a geographic component: rural jobs grew 26 percent in the Mountain States, 14.5 percent in the Southeast, and 8.7 percent in the Northeast from 1991 to 2001. In New York State, the number of rural jobs rose a mere 1.8 percent over the same period.

Drabenstott attributed the uneven job gains to the fact that employment growth is heavily concentrated in rural counties near growing metropolitan areas and in scenic environments with amenities such as mountains and coastlines. He then suggested that just as the level of economic activity has varied among rural areas, the nature of that activity has varied from the past. "Rural" today, he noted, does not necessarily mean "agricultural." Deitz reinforced this point, observing that in 1969, 5.8 percent of the income earned in New York State's rural counties came from farming, but by 1998, this figure had dropped to 1.2 percent.

With farming playing a reduced role, other forces are now driving rural job growth. According to Drabenstott, rural areas are now competing with metropolitan areas for the same jobs. Much of the new employment stems from

the extensive commercial and residential real estate development that has followed the influx of new residents—residents drawn to the scenic attractions of rural areas. Most rural counties also see job gains in the same service industries as metropolitan areas, and manufacturing has become an engine of economic growth in a good number of rural counties.

Drabenstott observed that the declining importance of agriculture and the growing pressure to compete with metropolitan areas for jobs has important policy implications. Rural areas must ease their emphasis on farm policy and focus instead on a new and expanded set of concerns.

Strategies for a New Rural Economy

Drabenstott identified four important components of an expanded rural policy: development of a broadband communications infrastructure, facilitation of rural entrepreneurship, conversion from commodity-based to product-based agriculture, and the marketing of green space for tourism and residential development. High-speed Internet access is crucial if rural areas are to tap into the digital economy, according to Drabenstott. “Broadband can help level the playing field for rural America” by opening the door to telecommuting and distance learning and by turning farms into e-businesses, Drabenstott said. However, it is rare to find fast-data pipelines in rural areas today. Drabenstott explained that in cities with populations of more than 250,000 residents, 72 percent have access to cable-based broadband; in towns with populations between 10,000 and 25,000, only 8 percent have access to similar service.

Promoting new economic activity through entrepreneurship is another important avenue of rural job growth, Drabenstott noted. He likened would-be rural entrepreneurs to nineteenth-century homesteaders, and encouraged rural community leaders to foster that same pioneering spirit at home. He also said that entrepreneurs would need easier access to capital, better education and training, and better overall support to be able to create new opportunities in their communities.

To improve the profitability of farming in New York State, Drabenstott suggested a shift in focus from growing and selling commodities, such as corn or wheat, to producing new products consumers desire, such as vitamin fortified foods. Farmers are now fighting an increasingly difficult battle: using new technology to compete with commodities grown outside of the United States. At the same time, farmers are too isolated from the market, making it difficult for them to find buyers for whatever they happen to grow. Instead, farmers should join supply chains, based more closely on the demand for specific farm products. “You have to grow what will sell, not sell what you grow,” Drabenstott said. He also encouraged farmers to form cooperatives to share equipment and lower supply costs.

Rural leaders were encouraged to take advantage of a national trend in real estate in which older, wealthier Americans are looking to escape the congestion of metropolitan areas. Drabenstott said that many towns could help turn their economies around by

“selling green space”—most notably, by creating more recreational spots and permanent residential communities for those seeking a more scenic environment.

However, to follow any of these paths, Drabenstott suggested, communities and legislators must rethink rural state and local development policies. He noted that agricultural committees were ubiquitous in Congress and in state legislatures and universities while groups supporting other types of industry in rural areas were relatively scarce.

Drabenstott gave several examples of how some European countries are rethinking their rural policies and according greater independence to rural areas: Spain’s delegation of increased authority to its rural Valencia territory, and various moves in the United Kingdom, Italy, and Hungary to consolidate rural counties’ political power into larger regions. He suggested that it might be better to focus policy on geographic regions—for example, rural upstate New York—than on industrial sectors such as agriculture. Numerous moves have already been made nationally in this direction, with the recent creation of the Congressional Rural

Caucus, and the implementation of Georgia’s One Georgia Plan, which uses tobacco settlement dollars to invest in industry and tourism outside of the Atlanta metro area.

Challenges for Rural New York

After addressing the broad issues facing rural America, the roundtable talks moved to the concerns of local rural communities. Participants were asked to describe the challenges faced by their

communities and to identify local assets and opportunities for economic growth. Following is a summary of the discussions.

Canton

Canton participants cited a number of barriers to economic growth in their region, including distance from a large city or industrial hub, long winters, few residents with skills in high technology, and insufficient infrastructure in fiber optics and transportation.

Keith Zimmerman, director of the Low Country Planning Agency, raised another problem—the region’s aging population. “There’s a smaller and smaller working population, supporting people who are sick and in nursing homes,” he said.

Attendees also cited opportunities for growth. Local residents’ self-reliance is an asset that could help generate small-business development. The region’s cold, snowy winters and abundant lakes could provide the foundation for a year-round tourist destination.

Ram Chugh, a professor at Merwin College and administrator with the Merwin Rural Services Institute, was confident that St. Lawrence County could tap into the burgeoning tourism market. “I feel very strongly that through tourism, we can restart the economic growth of this region,” he said. “We can set up a coordinated regional tourism development plan based on water sports and skiing.”



Some St. Lawrence County officials expressed frustration with lawmakers in Albany. They said that state capital officials allocate significant funding for New York City tourism promotion, but are less supportive of North Country efforts to encourage tourism.

Ithaca

Participants in Ithaca indicated that their major concerns are an unproductive conflict between older, conservative political views and newer, more progressive ones; the lack of telecommunications infrastructure and the high cost of local service; and a lack of business start-up capital. They also decried the fragmentation of local and county governments, noting that residents pay higher taxes to cover duplicate services and that new businesses have difficulty navigating all the relevant ordinances. While many of these concerns diverged from those voiced by the Canton participants, some Ithaca attendees echoed the Canton view that Albany has not adequately supported economic growth in rural New York.

Robert Lambert, president of the Morrisville Historic Preservation Commission, expressed concern about free trade agreements in place that lower import barriers to foods that New York growers already produce. He told of his frustration in trying to find a brand of apple juice in the supermarket that did not have “China” or “Venezuela” on the label.

Ithaca attendees also cited a number of regional assets that could lead to future economic growth. Many see great potential for recreation and tourism development centering on resorts at nearby Cayuga Lake and the increasingly popular wine industry in the Finger Lakes Region. Tom Lyson, a professor of rural sociology at Cornell University and the mayor of Freeville, New York, pointed to the success of other rural areas. “Vermont is a wonderful example,” he exclaimed. “They have a whole cottage industry. You can go from forest to field to bed and breakfast, with a mix of things to do.”

Participants also noted growth opportunities in new technologies—the use of the Internet to strengthen local commerce, for example, or the development of a biotechnology industry. The presence of Cornell University was mentioned as a great asset in the application of new technologies. The university has also been instrumental in bringing to the community another catalyst for economic growth—progressive social systems that have raised the quality of life and encouraged civic involvement.

Canandaigua

Participants in Canandaigua, another Finger Lakes community, voiced concerns similar to those of their Ithaca counterparts. They noted the difficulty of expanding existing telecommunications networks. Other impediments to economic growth cited were insufficient access to capital, the duplication of municipal services, and a gap between available or potential jobs and worker skills.

“I think the lack of working capital is one of our biggest problems,” said Dave DeLaVergne, senior vice president of the independent Bank of Castile in Perry, New York. He seconded Drabenstott’s view that towns need more capital investment, but maintained that there is not much available in his area of the state.

Don Kennedy of the Orleans County Development Agency advocated merging school districts and sharing other municipal resources to reduce local taxes. “In Orleans County, where we have 45,000 people, we have more fire equipment than the city of Buffalo,” he said.

The Canandaigua group also envisioned significant opportunities for economic growth in their area. The participants noted the success of the region’s wine industry, and the tourism potential of Canandaigua Lake. Other assets mentioned were untapped natural gas deposits, fertile soil, solid educational institutions, a regional leadership inclined to collaborate on mutually beneficial development projects, and a relatively young and rooted labor force.

Ellicottville

The final meeting took place in Ellicottville, known for year-round recreational opportunities on its ski slopes and golfing greens. Roundtable attendees said that their greatest challenges are developing the workforce and getting banks to extend capital to businesses. Regional assets include well-coordinated tourist industries, adequate telecommunications infrastructure, upcoming major transportation projects, and

entrepreneur-supportive education. Participants suggested that area residents have a penchant for innovative thinking. Representatives from the Cornell Cooperative Extension Service highlighted a community project to convert livestock manure into electricity as one example of local creativity.

Local entrepreneur Kathleen Balus, the chief executive officer of Pioneer Credit Recovery, Inc., a collection agency in Wyoming County, described her experience in setting up a successful business in the area. She testified to the dedication of her workers and noted that she held vendor contracts with the national Department of Education. However, she also indicated that it was difficult to find start-up financing, and stressed the need for more equity credit for local entrepreneurs.

The Role of the Federal Reserve System

Participants at each roundtable were curious about the Federal Reserve System’s role in rural economic development. In general, the Federal Reserve System’s purpose is to promote a healthy banking system and a sound economy. One element of a sound economy is, of course, a sound rural economy. And while the Fed cannot have a direct impact on rural policy, there is much that it can do to support rural communities. The work of the Kansas City Fed’s Center for the Study of Rural America is an example of such support. By tracking and researching the rural economy, the center provides objective information that rural communities can use to understand economic developments within their region and to develop appropriate policies.



Responding to the roundtable participants' clear expression of interest in such information, Drabenstott also suggested that communities ask land-grant state colleges and universities "to renew their social contracts with their surrounding communities" by collecting data on their regions and conducting research to help solve distinctly local problems.

Finally, Drabenstott and Deitz noted that the Fed can support rural communities by acting as a facilitator at regional discussions. The New York Fed's Office of Regional and Community Affairs plans to do just that by sponsoring, in 2001, a Northeastern regional conference addressing many of the issues identified during the roundtable meetings.

Conclusion

Overall, the roundtable talks revealed the forces of globalization and technological change to be a double-edged sword for rural New York State. On the one hand, participants viewed these forces as a significant challenge to the economic well-being of their communities. They cited a common need for workforce development, better access to capital, and improved telecommunications infrastructure in order to compete for new employment. On the other hand, the globalization and technology trends were seen as offering opportunities for growth. Information technologies, for example, are relieving the isolating effects of

distance on rural communities. Looking ahead, participants identified opportunities for economic growth in rural upstate communities, including the potential for an expanded tourism industry built on the region's scenic attractions.

The Federal Reserve Bank of New York will be hosting the following Community Reinvestment Act review meetings during the month of September 2001:

9/12	Olean	8:30-11:00 a.m.
9/12	Buffalo Branch	2:00-4:30 p.m.
9/13	Rochester	8:30-11:00 a.m.
	Courtyard by Marriott-Brighton	
9/13	Ithaca	2:00-4:30 p.m.
	Clarion Hotel University	
9/14	Binghamton	8:30-11:00 a.m.
9/17	Syracuse	8:30-11:00 a.m.
	The Hotel Syracuse	
9/17	Watertown	2:00-4:30 p.m.
9/18	Plattsburgh	8:30-11:00 a.m.
	Best Western Inn	
9/18	Albany	2:00-4:30 p.m.
	Albany Holiday Inn Turf	
9/19	Newburgh	8:30-11:00 a.m.

If you would like more information about these meetings, please contact Connie Poniatowski at (716) 849-5023.

The views expressed in this newsletter are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System.

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