The Economy in Motion: Rural Maine's Past, Present, and Emerging Future[2]

by Catherine Reilly

In March 2006, people of the Katahdin region gathered for an economic summit at their new higher education center in East Millinocket. Their goal was to plan the economic future of their community in the wake of two decades of shrinking job opportunities – no simple task. I was invited to talk about the economic state of rural Maine and its prospects for the future. I began, as economists must, with people and places.

Maine is an independent state. On a map, it juts out stubbornly from the rest of the country. Our work ethic and natural surroundings distinguish us, too. It is tempting to think that our challenges are also unique. In reality, many of them – the decline of manufacturing, youth migration, an aging workforce – confront other states, as well. Maine is part of a structural economic evolution that is reshaping every rural state and, indeed, the global economy.

The Past: Farming and Manufacturing Sustain Early Economies. Rural America's story begins with agriculture and manufacturing. A century ago nearly two-thirds of American workers were employed in farming or manufacturing, and roughly the same proportion lived in rural areas. Today, less than 13% of Americans work in those industries and about 21% live in rural areas. Rural America thrived when agriculture and manufacturing ruled the national economy. Why is today's service-based economy so different? Why do urban places seem to be getting a larger piece of the pie while many rural places get a smaller piece?

The answer to these questions begins with agriculture. Farming once relied on large amounts of relatively unskilled, manual labor, which spurred population growth in rural areas. From 1860 to 1910, Aroostook was Maine's fastest growing county; by 1910, it was Maine's third most populous county.

Then new technologies and the opening of farmland in the mid-west allowed Americans to produce more food using fewer people. A field that once took three people a day to harvest could now be harvested in a few hours by one person and a tractor. Advances in farming made food cheaper, permitting consumers to spend more on things like clothes, furniture, and cars. People who could no longer find work on the farm took to the mills and factories that began producing these consumer goods.

Some manufacturers located in cities, but many built in rural areas where they drew from a surplus of semi-skilled workers, inexpensive land, and abundant waterpower. So, in addition to big manufacturing centers like Lewiston-Auburn and Biddeford-Saco, smaller operations arose

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in Augusta, Dexter, Skowhegan, Guilford, and Wilton. Some rural towns urbanized with the expansion of manufacturing.

Then things changed again. New technology and investments allowed us to manufacture more goods with fewer people. Transportation and communication improvements expanded trade with places with large pools of cheap, low-skilled labor. These changes made goods less expensive. Now consumers had cheap food and cheap goods. They began to spend money on things like haircuts, chiropractors, and braces for their kids' teeth – what we know today as "services." Today, many people who might have worked years ago in manufacturing find service jobs.

The Present: The Rise of Services Reveals a Rural-Urban Divide. This is where rural and urban places began to have very different experiences. Agriculture and manufacturing can thrive in rural places because producers of goods and their consumers can be far apart. Potatoes can be grown in northern Maine and served in a restaurant in southern Maine. Lobsters can be caught in Washington County and eaten fresh in Miami or Los Angeles. Paper can be made in Millinocket and used around the world.

Most services are different, however. With a few exceptions, the person providing a service and the person using it must be in the same place. With greater consumer spending on services, the places that began to grow were those where a critical mass of people created enough demand to make services profitable.

To some people, "services" seems to be a bad word; they think only of jobs at McDonalds and Wal-Mart. This is not an accurate or a fair picture. Many Maine people do very well in service jobs. Teachers, nurses, lawyers, doctors, accountants, merchant mariners, Maine Guides – they are all service providers.

Many service jobs pay well, offer good benefits, and require a good deal of skill. Others don't require a great deal of formal training or skill; these don't pay very well and generally offer few if any benefits. Service jobs that require skill tend to end up in places where there are a lot of similarly skilled people, and where customers can afford to pay for high-skill services.

Employers looking for highly skilled workers seek out places with lots of potential employees from whom they may choose; in most cases, these have been urban rather than rural places. As a rule, large companies no longer build operations in rural America that employ large numbers of technically-trained workers. The day has past when mill towns like Millinocket magically emerge from the American wilderness.

Today, Aroostook is Maine's fastest shrinking county, and 51% of all Maine employees are in the labor markets surrounding Bangor, Lewiston-Auburn, and Portland (up from 47% in 1990). Increasingly, new economic activity in Maine is concentrated in urban places.

A service-based economy is not inherently worse than one based on raw commodities or manufactured goods. It *is* different, however, in that it highlights disparities in workforce skills and market size in rural versus urban areas. It is these disparities that need to be overcome in Maine, not the economic forces that reveal them.

Defying the Odds Through Comparative Advantage. Rural states like Maine must respond to this challenge on their own. As Richard Barringer has pointed out, the federal government does not have a coherent rural development strategy. Federal rural policy was once land grants, price controls, and farm subsidies. Today there is no well-defined national strategy to support rural

areas. This contrasts with the clear endorsement of free trade that has created economic opportunities for some but hurt many rural, technically-trained workers.

Meeting this challenge requires rural states like Maine to be resourceful and creative. We will have to seek out and build upon comparative advantage. Moreover, states will have to compete with each other. Like Maine, many rural states are looking for answers in the retirement industry, tourism, and value-added products. Can Maine compete? Yes. Many Maine businesses are flourishing in the new service-based economy in one of three ways.

The first is developing a new product through a unique idea, resource, or skill – as, companies like Hinckley Yachts, building jet-powered lobster boats, and Cherry Point Products, dehydrating sea cucumbers and shipping them to Japan. Some businesses are capitalizing on unique resources: as, Hancock Lumber, selling sustainably-harvested lumber, and Maine fishermen, harvesting lobster, scallops, and bloodworms. Still others are capitalizing on a unique skill. A Denver-based company has leased the old Bass Shoe factory to make specialized shoes for people with diabetes. It chose Wilton over sites in South Carolina, New Jersey, and Massachusetts, due largely to the presence of former Bass employees with special skills in shoemaking.

A second route for rural business is providing a service that may be used long-distance. This is the call-center model, working in one place with customers in another, and the merchant mariner model, living in one place and working in another. This requires a workforce that can compete nationally and globally. Services that can be provided long-distance are open to competition from around the world – just ask anyone whose customer service call has been answered by someone in India. Maine currently competes in this arena to some degree.

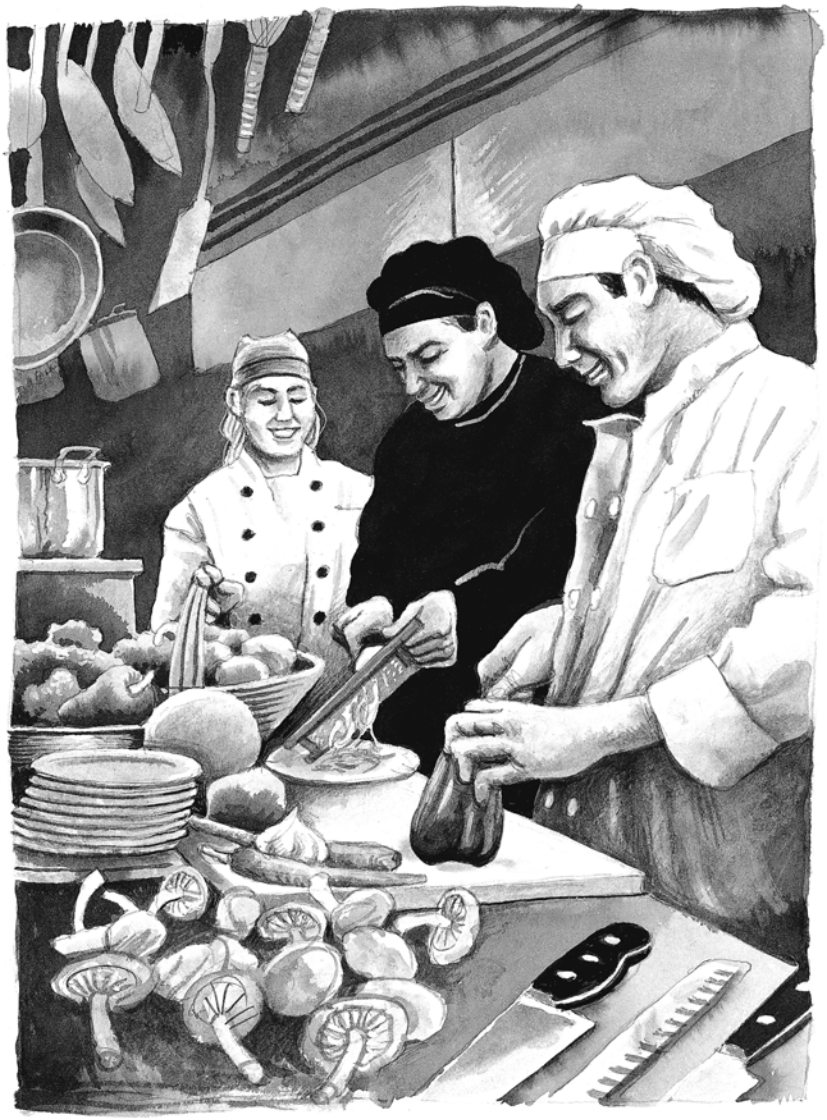
In the summer of 2005, employees at the Defense Finance and Accounting Service Center in Limestone faced losing their jobs because of a Department of Defense plan to consolidate its operations. Fortunately, the federal review panel saw that Limestone employees were providing a quality of service that far surpassed other centers in the nation. The high quality of their work saved their jobs and even convinced the panel to consider hiring 300 more people in Limestone.

The third path for rural businesses is providing a service or good that cannot be used long-distance but that people are willing to travel to consume, like attractions for tourists and retirees. Maine's long history with tourism is a testament to the continuing potential of this market.

The Future: Ours to Create. The common thread through all three strategies is the need for skilled people to carry them out. Maine needs people who can identify unique ideas, resources, and skills; people who can provide services at a level that is unsurpassed globally; and people with the creativity to know what services tourists and retirees want, how to provide them, and how to market them. More and more, the opportunities available in rural areas are going to be those created by local residents. Maine has many unique assets that we can draw from, and famously hard working people. Translating these into increased economic opportunities will be up to us.

At the close of their economic summit, the people of the Katahdin region affirmed their commitment to building upon the enduring comparative advantage of their region. Their unique assets of forests and waterpower have supported paper mills for over a century. Now they must

support a more diverse array of businesses. The people of the Katahdin region have taken a first step toward that transition. The future of rural Maine lies in similar steps toward change.



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Abstract: Maine is today part of a global, structural economic evolution that is reshaping each of the nation's rural states. Agriculture and manufacturing once sustained Maine's rural areas, employing hundreds of thousands of workers. Technological advances, international trade, and changing consumption patterns reduced demand for these workers. As a result, many rural areas – primarily in western, northern, and eastern Maine – have lost population. Growth in today's service-based economy has concentrated in urban areas with thick consumer and labor markets. Despite the challenges, many rural businesses still thrive. These focus on comparative advantage; build on unique ideas, resources, or skills; or overcome the need for physical proximity in service delivery. More and more, new economic opportunities available in Maine's rural areas will be those created by local residents themselves, through ingenuity, innovation, and market-responsiveness.

Important Ideas:

1. Comparative Advantage – Economic opportunities arise when one region can produce a good or service of higher quality or at lower cost (either absolute cost or opportunity cost) than another region.
2. Demand for Labor Follows Consumer Demand – In a market economy, growth industries are often those that anticipate and satisfy new consumer demands. Rising demand for service-industry workers reflects consumers' rising demand for services.
3. Businesses Locate Near Consumers and Workers – Businesses generally locate near concentrations of potential consumers and/or qualified employees.
4. Extraction vs. Attraction – America's rural economies were once based on the *extraction* of natural resources and the labor of local workers. Today, rural businesses succeed by *attracting* economic opportunities to themselves, often through a unique idea, resource, or skill.

Essential Questions for Discussion:

1. How has international trade affected demand for workers in manufacturing and agriculture? What other developments have affected that demand? Why haven't federal programs such as Trade Adjustment Assistance prevented the migration of workers from many rural areas?

2. What factors do businesses consider when making location decisions? What will businesses in today's growth industries (professional and business services, health care, etc.) look for in coming years?

3. Some rural areas have gained population in the last decade, a few quite rapidly. What characteristics do they share? What challenges have they faced?

4. Can comparative advantage be created? How and by whom? What are Maine's current and potential areas of comparative advantage?