1. Introduction

Rural life has changed dramatically over the past century.[1] One of the most salient features of rural areas in the past was social isolation. Advances in telecommunications and transportation have integrated most rural communities into the larger society. Rural residents now have access to the internet, which allows them to shop and communicate with others outside their local community. Many rural workers commute to urban areas. Improvements in telecommunications also permit some people even to work at home, often relatively long distances from the business site in urban settings. Mass communications also provide rural residents with the same news and information that once was available only in the largest cities. They are therefore exposed to the same elements of mass culture that influence urbanites.

There also has been a transformation in how people earn a living in rural areas. Farming is no longer the primary occupation in most rural areas. Even in agricultural dependent areas, farming provides less income than other sources. Other extractive industries, like mining and forestry, no longer provide many jobs either. Technological change has been the major force displacing jobs in extractive industries. Today, the majority of workers in rural areas are now employed in the services sector.

This is not to suggest that rural–urban differences do not remain. Rural residents continue to maintain stronger ties and relationships with their neighbors than do urban residents. Similarly, rural residents tend to be more traditional and conservative with respect to their values and attitudes. Rural areas also tend to have less access to health and social services, primarily a result of the low population density in many rural communities.

One of the most persistent differences between rural and urban areas is the gap in wages and earnings. On average, rural workers in the US earn about 65 percent of the wages urban workers receive, and the difference is growing. Some of the income gap can be attributed to supply-side (human capital) factors, such as education, training and work experience. Rural workers have lower levels of formal education for several reasons. Rural areas attract older people who are likely to have less formal education. Younger residents are more likely to migrate to urban areas where they can obtain a college degree and increase their likelihood for advancement. Employers in rural areas are also less likely than urban employers to invest in job training for their workers. Historically, many rural areas also have suffered from labor shortages. Migrant workers, who tend to have lower levels of formal education and training, have been used to supplement the existing workforce in agricultural production and other extractive industries, and increasingly in the manufacturing sector in rural areas.

Differences in the demand for labor in rural and urban areas also contribute to the earnings gap. The industrial and occupational structures of rural and urban areas continue to differ in some important ways. Many of the economic problems facing rural regions are rooted in their dependency on industries that have experienced downward pressure on prices, technological change that has reduced the demand for workers, and oversupply due to international competition. Some of the best examples of these industries are agricultural and forest products industries, which have undergone rapid technological advances and increased international competition, especially since the 1970s. The manufacturing sector also has declined in many rural regions because firms have sought areas with even lower labor costs. Many of the manufacturing firms relocating to rural areas demand fewer skills and less training. Since the 1980s, services have contributed all the net new jobs in rural areas even though many of these jobs paid low wages and were part time (Glasmeier and Howland 1995). Despite the growth of services in rural communities, they have not necessarily produced a more stable economic economy. Consumer services are not considered an export industry and rely on other basic sectors of the economy. Producer services, which tend to pay higher wages, are more likely to be located in urban areas. Overall, the types of jobs and industries located in rural areas require less-skilled workers and tend to pay less than the jobs and industries in urban areas.

Demand for labor in rural areas is also shaped by the small population size and low density of these markets. These qualities make for 'thin' labor markets. By thin, I mean that the demand for various types of jobs is relatively small. Labor economists rarely look at the size of demand in local labor markets. Thin demand in rural labor markets may have several important effects, including the returns on investments in human capital and the rate of productivity growth. It also may contribute to problems in developing training programs for workers because there is not a sufficient critical mass of most skilled positions. As a result, rural labor markets tend to suffer from both a lack of skilled workers and paths of career mobility. Also, it usually means employers need to recruit for skilled workers outside the community. Because there are fewer employers competing for skilled workers, wages tend to be lower as well.

Differences in the institutional structure of rural and urban labor markets also may play a role in the earnings gap. Rural areas have fewer intermediaries (such as unions, community-based organizations and other institutions) that link workers to employers. Intermediaries provide information, training and, in some cases, assist in child care, transportation and housing. Without these intermediaries, it is difficult for rural labor markets to operate efficiently. Intermediaries help both workers and employers overcome the problems of lack of information that often plagues labor markets.

Some economists have argued that the wage gap between rural and urban workers simply reflects the preferences rural workers have for other elements of quality of life (Blanchflower and Oswald 1996). In other words, it is assumed that rural workers are willing to take lower wages in return for small town living, proximity to family and friends or access to natural resources and recreation. This argument, however, rests on several assumptions, such as workers are mobile and residence reflects rational choices of actors. Rural residents may not be as mobile as economists assume. Workers may have strong social ties that they may rely on in emergencies. To sacrifice this safety net is an extremely risky venture.

Residential preferences and location are, I think, endogenous. That is, there are reciprocal relationships between the two. There is not much empirical support for this claim that residential preferences determine where one lives. Rural workers are likely to say they prefer living in rural communities and urban workers are probably more likely to report that they like living in cities. This relationship between residential preferences and location can be due to a variety of conditions, especially lack of information and rationalizations about why they live where they do.

This argument about wages and residential preferences also ignores issues related to economic and social justice. Should rural workers who have the same level of training and education, and have essentially the same jobs as urban workers, earn less than urban workers? Urban workers also may be selectively mobile and are choosing to live in areas where they also receive quality of life benefits. They are not forced to make the same tradeoff that rural workers are. This issue regarding the role of residential preferences on earnings needs more attention, but at this point it raises more questions than answers about the earnings gap between rural and urban areas.

Overall, this discussion suggests that rural communities are faced with a dilemma in their efforts to promote economic development. If they invest more in formal education and training, there is a high probability that many workers will migrate to urban areas because of the lack of job opportunities. Rural communities are therefore incurring much of the cost of educating a workforce that largely will be employed in urban areas. Although they are generating a public good, rural communities may get very little return on these investments. In many regions, educational costs are borne largely by land owners and they may be more inclined to reduce expenditures for education if they do not see any local return on these investments.

On the other side of the equation, if rural communities are successful in attracting employers, there may not be a sufficient number of workers with the necessary skills for the jobs. In such cases, skilled workers may be imported from other regions. Although this may have some beneficial economic and fiscal impact on the region, it has few benefits for local workers who are seeking advancement. Some early work by Gene Summers *et al.* (1976) on rural industrialization found that as much as 80 to 90 percent of the workforce in branch plants locating in rural areas migrates for these jobs. Rural industrialization had little effect on the unemployment or poverty rate in rural areas. Thus, attracting new industry may not contribute as much to the regional economy because there are few opportunities for local residents. When tax incentives and subsidies are considered, there may be a net loss to the community.

An alternative economic development strategy is to create institutions that simultaneously build both the supply- and demand-side of rural labor markets. Historically rural areas have been the beneficiaries of the movement of capital to low cost areas. In recent years, however, this movement may have reached its limit due to the effects of globalization. New institutional arrangements are needed to help build the human capital of rural workers while helping employers make the transition to the new economy. Below, I discuss some of the issues rural areas face in this new era.

BUILDING THE HIGH ROAD

Although employers can adopt a variety of competitive strategies, some analysts have characterized the fundamental choice as between the 'high road' and the 'low road.' The low road involves competing against other firms in their industries by cutting production expenses, especially labor costs. Employers typically achieve this goal in several ways, such as moving to lower cost areas, outsourcing, or reducing training expenses. This strategy generates low rates of productivity growth and narrow profit margins. Adopting the low road approach, however, means that employers will have to compete directly against employers in other low cost areas. For example, much of the US textile industry has moved to China since 1990 as employers have been forced to move to even lower cost areas.

The high road strategy emphasizes technological adoption, investments in worker training and improvements in productivity. There are several different models for promoting the high road strategy. One of the influential books on this topic is Michael Piore and Charles Sabel's *The Second Industrial Divide* (1984). Piore and Sabel argue that successful economic regions, such as northern Italy, have made a transition from reliance on mass production to an economic system based on flexible specialization. Flexible specialization depends on permanent innovation, a highly skilled workforce and multiple use equipment (Piore and Sabel 1984: 17). Clusters of manufacturing firms in northwestern Italy are the exemplars for this model. Flexible specialization is the polar opposite of the mass production system, which is an institutional system that relies on mass markets, unskilled workers and standardization. Flexible specialization necessarily requires a high level of employer provided training to satisfy the technological requirements of the jobs. Because there are many employers in the region who have the same training needs, they can cooperate and coordinate their efforts.

Although policy-makers and scholars have been optimistic about the potential of high road systems such as flexible production, these models are not widely distributed across rural areas. Similarly, recently there has been a great deal of attention given to the 'creative' or 'knowledge' economy. Proponents of these ideas suggest that the path for economic development in rural regions should be based on increasing the number of high skilled jobs that are based on producing ideas rather than things. Yet, most of the analyses fail to provide a map of how rural communities can build a knowledge economy or how to overcome many of the structural and institutional obstacles rural communities face.

Why do most rural employers continue down the low road? What obstacles do they face in making the transition to the high road? We lack adequate answers to these questions. The availability and cost of credit can be an obstacle in many rural areas. New technology is expensive and the low profit rate of many firms does not generate enough capital for these investments. Access to debt capital can be a real problem in many rural areas and it may be difficult for employers to obtain loans in urban areas.

The real obstacle, I believe, is institutional. Educational and training institutions in rural areas offer a much more limited curriculum and often lack resources. Most rural areas do not have colleges or universities, which are frequently the spark for the growth of the knowledge economy. Nor do they have the cultural amenities and diversity that Richard Florida (2002) says contribute to the formation of a creative class. And as I will discuss in the next chapter, many rural areas suffer from a brain drain that makes it difficult to build the human capital that will support a knowledge economy.

The preferred solution is for employers to become more engaged in training their existing workforce (Streeck 1989). I will review the evidence on this issue below. Some rural employers do provide some in-house training, but it tends to be for very specific skills that have a limited impact on productivity and worker mobility. In the following section, I discuss some of the constraints that rural employers face in training their workforce for the future.

OBSTACLES TO EMPLOYER-PROVIDED TRAINING

In 1991, the US Department of Agriculture (USDA) published *Education and Rural Economic Development*, a report that claimed that 'despite the amount of money spent, little is known about the efficacy of employer training, and many feel it is inadequate. Training undertaken or sponsored by rural employers is unknown, but is likely to be quite low' (USDA 1991: 10). Ruy Teixeira and David McGranahan (1998) found that more than 60 percent of rural workers do not receive any training.

Rural employers face several obstacles in increasing their employee training. The most common reason employers provide for not training workers is cost. Training costs are typically viewed as nonessential and when firms need to cut costs, training is usually the first to go. Because many rural employers are small, these costs are disproportionately high and the firms do not have the infrastructure to provide in-house training.

For many rural employers, the high turnover among workers is a disincentive to invest much in job training. If employers provide job training, workers may take those new skills to another employer who will reward them with higher wages. When employers do provide training, it is often firm-specific, making it less advantageous to other employers. Under conditions of a labor surplus, employers may decide it is less costly to keep training costs to a minimum and replace workers more often. Employers with high turnover rates fail typically to underestimate the hidden costs to their business.

Some employers are just philosophically opposed to providing job training. It is the responsibility of individuals, they argue, to pay for training and education. They point to the plethora of government programs that will help subsidize training for workers. These arguments, however, are fairly short sighted. Workers often face serious obstacles, such as financial constraints, child care and transportation that prevent them from obtaining additional formal training or education. Defining job training as a personal rather than public problem fails to recognize the public welfare generated through improved training and education.

Employers frequently report that workers lack motivation for training. There may be something to these perceptions. Several studies have shown that the returns to human capital are lower in rural areas than they are in urban areas (Beaulieu and Mulkey 1995; Greenberg *et al.* 1995). The difference in the return to human capital between urban and rural areas is due largely to the lack of job opportunities in many rural areas which limits the potential of workers to find jobs that use the skills or experience they have. Rural workers may not invest in additional training for their job (or for potential, future jobs) because of the relatively low rate of return on this investment. This issue may be especially important for workers who are very attached to their community. The opportunities for training and advancement in many rural areas may be limited by the types of industries that are likely to locate in rural areas. So, it is difficult to separate out the effects of motivation versus the structure of opportunities. Clearly the two are related.

Another factor is the cost disadvantage in rural areas (Swaim 1995). The National Center on Education and the Economy reports that about 90 percent of all private sector training expenditures in the United States are made by one-half of one percent of US companies – and two-thirds of that goes to college-educated employees, who arguably need it the least (Marshall and Tucker 1992: 69). Most of these very large firms are located in metropolitan areas. In addition, urban employers can collaborate to spread the costs across several firms and reduce some of the uncertainty that workers may change jobs once they receive the training. These options may be less viable in rural areas because of the smaller number of employers with similar training needs in a region. Most small employers do not have enough resources to send their workers to a training facility or to bring training providers inside the firm. This leads to an accessibility issue concerning training providers (Teixeira and McGranahan 1998). This issue is probably much more important for rural than urban communities. Teixeira and McGranahan (1998) found that when firms were in a county with a two-year college, labor quality was less of a problem for firms.

Finally, a factor in the training gap between urban and rural areas may be the number of other employers in the region that offer jobs with similar skills. Employers are usually concerned that their trained workers will be poached by other employers with similar training needs. Thus, they are caught in a collective action problem – there is a collective need for skilled workers but individual firms may not be willing to make the investment.

In many regions, community-based organizations have emerged as key labor market intermediaries that provide an institutional response to these collective action problems and assist employers in overcoming the obstacles they face in provide job training. In the next section, I briefly review how community-based organizations are contributing to workforce development in the US.

COMMUNITY-BASED APPROACHES

Much of the literature on job training has focused on either workplace training or formal training through technical colleges or other training institutions. Only a few studies have examined the networks among training institutions, employers and community-based organizations (CBOs) (Fitzgerald 1998; Molina 1998). One major exception is a study conducted by Bennett Harrison and Marcus Weiss (1998). They studied the emergence of inter-organizational and collaborative networks across the US. Harrison and Weiss found that community development corporations (CDCs) and other CBOs have become essential actors in workforce development networks. Although their exploration of networks focused on metropolitan cases, I believe this approach may have some critical advantages to overcoming the resistance to training by employers in rural areas. For example, CBOs may help solve the collective action problem in training by bringing together several firms to collaborate on training efforts (Melendez and Harrison 1998). If several firms with similar training needs work together, there is less likelihood that individual firms will lose their investment in training. Similarly, by pooling resources, employers may be able to reduce some of the costs to providing training.

Community-based approaches to workforce development also may rely more heavily on in-house programs than technical colleges or other institutions. Community-based organizations may solve some of the problems unique to rural areas because they help match workers to available jobs, thus removing some of the disincentives rural workers face in obtaining additional training.

Harrison and Weiss (1998) identify three distinct structures of workforce development networks. Hub-spoke employment networks have a community-based organization (CBO) at the center of the network that links employers, trainers and public officials. The San Jose-based Center for Employment Training (CET) and Project QUEST in San Antonio are examples of this model.

The second model is the peer-to-peer workforce development networks, which consist of several CBOs linked together at the core of the network. Examples of this model include the Chicago Jobs Council, the Pittsburgh Partnership for Neighborhood Development and the Business Outreach Centers of New York City.

Finally, in some cases a regional training institution may play a central role in the network, referred to as an intermediary training network, and is linked with other CBOs to provide training. Examples of intermediary training networks include the Regional Alliance of Small Contractors in New Jersey.

Harrison and Weiss's analysis is largely descriptive and does not provide any explanation of how these different institutional structures might influence the breadth and depth of job training provided by employers. They provide little information on how workforce development networks are initiated, their effectiveness, and their ability to elicit employer participation. This research will begin to answer some of these basic questions. The research design provides a holistic understanding of these networks by collecting information from employers, training institutions and the CBOs involved. By holistic, I mean that I will look at the motivations and experiences of employers, community colleges and CBOs that have been involved in workforce development networks. I hope this approach provides a better understanding of how and why the various actors participate in these networks.

Although we know some of the obstacles to increasing employer training, we still do not know much about how firms make decisions about training. Neither do we have a good understanding of what it will take to help low-wage employers in rural areas increase their productivity, as well as wages and benefits. Understanding the process, opening up the black box to see what is inside, rather than focusing on training inputs and outputs, can provide us information about the factors that firms use in deciding whether or not they provide training, how it is offered, who provides it, who participates, and when training is offered. Knowing more about the actual decision-making process may assist policy-makers in designing federal and state workforce development programs that facilitate productivity increases and ultimately wages in rural areas.

Because a comprehensive theory of job training is non-existent (Knoke and Kalleberg 1994) and human capital theories use the individual as their unit of analysis (Beaulieu and Mulkey 1995), we cannot simply use these theoretical models to explain firm behavior. Human capital theory places the burden of education and training responsibility on the individual. The firm in these theories has no responsibility towards their community or their workers. We need to develop better explanations of firm behavior as it relates to training specifically and to human capital development generally. The context for these investments should matter as well. Because of the low density of employers in rural areas and the difficulty in matching demand with supply, theories that are used in urban settings may not be as effective in rural areas.

THE STUDY

This study focuses on the creation, organization and effectiveness of workforce development networks in rural areas. I employ several data sets, including surveys of employers and training institutions, as well as intensive case studies of workforce development networks in rural areas across the US. By using mixed methods to examine these issues, I believe I am able to overcome some of the weaknesses inherent in any single method. This approach also permits me to assess the validity and reliability of key measures and concepts. In addition, I also use data triangulation by collecting data from the various actors involved in workforce development networks. In this regard, I go beyond previous studies that only look at a single component of a workforce development network. There is a substantial literature looking exclusively at employer patterns, some research has examined community colleges and only a few studies have analyzed the role of CBOs in job training. Yet, there has been no attempt to understand how these various parts relate to one another and how they might influence the actions of others. I consider several subsets of questions that are related to workforce development networks in rural areas:

1. How do firms make decisions about employee training? What factors contribute to investments in training? Are there different influences on the type of training (short-term versus continuous, specific versus general, and so on)? What factors influence the length of training and when it is provided? How does collaboration influence the breadth and depth of employer-provided training?
2. How do programs available at community colleges and other training institutions influence employer investments in training? Are community colleges providing the broad skills workers need or are they responding to employer needs to provide firm or industry specific training? How well do community colleges work with community-based organizations and other institutions involved in workforce development networks? How does involvement in these networks influence their training programs?
3. Can community-based organizations (CBOs) help employers overcome the obstacles to improved training efforts? In particular, can community-based training efforts reduce some of the uncertainty that employers face in their investment in training and the costs of these programs? Does the existence of community-based training efforts improve the process of matching the supply and demand of labor in the region?

This book is organized into six chapters. In Chapter 2 I examine the structure and change in rural labor markets. I pay special attention to the major industrial and occupation changes in rural America since the 1980s. I discuss the role of social networks in the functioning of labor markets and how government training programs have lacked the ties to employers and training institutions in rural communities.

Chapter 3 draws from an employer survey I conducted of businesses in nonmetropolitan areas of the US. In this chapter I focus on the levels and types of employer-provided training in these regions. I also look at the extent to which employers collaborate with community-based organizations and other institutions in coordinating workforce development, and the effects on job training.

In Chapter 4 I analyze data from a survey of community colleges serving businesses in nonmetropolitan areas. I explore how community colleges balance the pressures to provide traditional classroom instruction with the demands of regional businesses for customized training programs. I also assess their involvement with community-based organizations and their effects on programs and services offered through these institutions.

Chapter 5 summarizes my case studies of three community-based organizations involved in job training in nonmetropolitan areas. The case studies reveal some interesting differences in organizational structure and in the way CBOs structure employer participation.

In Chapter 6 I discuss the implications of this study for public policy and community development. I also review some of the lessons learned from the workforce development efforts that have been successful in rural areas.

NOTE

1. Throughout this book, I will use the terms rural and nonmetropolitan interchangeably. In the US, rural is officially defined as a municipality or other area with fewer than 2500 people. Metropolitan areas are defined as a municipality with 50 000 or more people and including neighboring counties with high numbers of commuters. It is possible that some rural areas are in metropolitan regions and nonmetropolitan areas have some urban municipalities. For the most part, however, the two terms can be used in a similar way.