ENTREPRENEURIAL ECOSYSTEMS

Community-Centered

Economic Development

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Content Guide

- Introduction
- The Imperative for Action
    - Community Responsibility
    - Global Dynamic Change
- Economic and Social Crashes
    - Mini Case Stories
- How Crashed Regions Manifest Distress
- Impacts of Poverty and Unemployment
- Other Impacts of Failing Economies and Societies
    - Personal Costs
    - Community Costs
- Beyond Emigration and Outmigration
- The Case for Community-Centered Economic Development
- Conclusion – Making the Case for Entrepreneur-Led Development
- Attachment 1 – More on Workforce Participation in Indiana
- Access and Use of e2U Materials
- How e2 Can Help

Introduction

At e2 we use the term **community centered** intentionally. By **community-centered economic development** we are advocating for economic development that contributes to community vitality and resident wellbeing. The embedded value is that an economy and economic development should exist to enable and foster thriving communities and broadly shared opportunities for all residents.

The first step a community must make in seeking greater prosperity is a commitment to smart economic development. The second step is a commitment to entrepreneur-led development as foundational to all community economic development. In this paper we particularly focus on why, despite overall American prosperity, so many communities and regions are chronically distressed.

Importance of Regional Development

In the United States the primary point of economic development action is at the community and maybe the county level. Most of our community economic development vehicles (e.g., economic development corporations, chambers of commerce, municipal and county governments, etc.) are local by design. Yet, from a functional basis, our economies and societies are regional in nature. The disconnect between local development and regional economies and societies impedes more effective and impactful economic development.

The Imperative for Action

There are two underlying rationales for communities, and when possible regions, to make deep and robust commitments to smart and impactful economic development:

1. Economic Development is a Community Responsibility
2. Global Dynamic Change

Economic Development is a Community Responsibility. In our work throughout the continental United States we often talk about economic development as a community responsibility. The United States is unique among mature economies globally. In most of the world, national and provincial governments play a much greater role in ensuring regional and local economic and social vitality. In Europe, the European Union's economic development policy has redirected massive investment to equalize regional socio-economic wellbeing. Once distressed countries like Ireland are now displaying greater economic and social vigor. Each and every community in the United States must accept its primary responsibility for its own development and success.

Appalachian Regional Commission (ARC)

ARC
APPALACHIAN
REGIONAL
COMMISSION

There was a time in the United States when there was a federal and state commitment to regional development. During and following the Great Depression and World War II, the Federal Government initiated regional development efforts (e.g., due to the New Deal and war preparation policies). Given the historic relationship between the Federal Government and the states, the states were enlisted as partners in these development efforts. The Tennessee Valley Authority (TVA) mobilized public power to bring electricity and economic development to an entire depressed region of America.

Possibly the best know federal/state regional development effort is the Appalachian Regional Commission (ARC). Created by Congress and the President in 1965, ARC partners with 13 states and has enabled transformative change (e.g., investments into infrastructure and community economic development) in this very distressed region. ARC employs a classification system measuring the socio-economic status of each of the 420 ARC-region counties. In 2020 just over 19% of the counties are classified as "Distressed" and another 26% are classified as "At-Risk." Nearly 52% of ARC counties are now classified as "Transitional" with just 10 counties classified as "Competitive" and three as at "Attainment" (meeting U.S. average indicators of socio-economic performance). ARC has commissioned impact studies illustrating the transformative change these external investments and interventions have enabled in this region. Despite the progress, as the high number of "Distressed" and "At-Risk" counties (45% of all ARC counties) indicate, considerable work remains to be done.

Our government's commitment to regional development began to wane as enacted policies like the Delta Regional Commission was never fully funded, the Great Plains Regional Development Commission was never enacted and federal and state government commitments to regional development districts has eroded significantly over time. Today, with the exception of metropolitan areas, formal and government-supported regional development efforts are largely marginalized. **Disinvestment by the U.S. Government in regional development has pushed this responsibility back on communities.** For most states, their largest economic development investments continue to be focused on (1) business recruitment and (2) major employer retention and expansion.

Global Dynamic Change. There is consistent economic and social change in the U.S. Many economists argue that the rate of socio-economic change is accelerating due to globalization and the internet. With dynamic change every community must constantly work to ensure they have a relevant and competitive economy.

Framing individual economic restructuring events are mega trends that have transformed world economies over the generations including:

Hunter and Gatherer Economic Culture
Settled Agricultural Communities
Global Trade and Colonization
First Industrial Revolution
Urbanization
Second Industrial Revolution
Globalization
World Wars I and II
Pandemics (i.e. Spanish Flu)
Natural Disasters
Information Technology Transformation
Biotechnology
Artificial Intelligence

Dominant economic and social activities displaced by innovation and transformation do not necessarily go away. These once dominant activities become less dominant and, in some cases, marginalized. There are still isolated hunter and gather economies and societies in the world. The agriculture and rural economies and societies that dominated centuries of human history are still very important as industrialization and urbanization changed the larger environment. Ultimately these mega trends, driven by innovation and disruption of the status quo, provide a larger frame for economic and social crashes.

Crashes

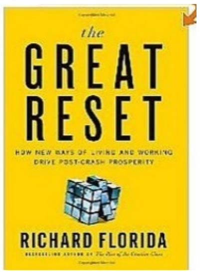
We are using the term **crashes** to describe what happens when massive economic restructuring adversely impacts a community's or region's economy and society. An economic and social crash can occur quickly when an entire industry like auto manufacturing in the industrial Midwest contracts rapidly, often followed by chronic and severe distress with associated effects. By effects we mean when economic opportunity erodes significantly, people in a community and region are at-risk and marginalized. Later in this paper we outline how communities and regions manifest their immediate and chronic distress.

Economic and Social Crashes

Economic and social crashes occur when entire industries and major employers contract rapidly or fail. Economic crashes are particularly hard hitting in undiversified economies when the primary driver of economic opportunity is lost. In these situations, there are corresponding social crashes that drive a whole set of outcomes including increased at-risk behavior by dislocated residents and the rooting of a "hopelessness" culture.

Let's sample some community and regional economic and social crashes next.

The Great Reset



In 2010 Richard Florida (author of the *Creative Class* writings) released *The Great Reset – How New Ways of Living and Working Drive the Post-Crash Economy*. While this book is probably not the most read of the many Florida works, we found it very insightful and helpful as we grasped to understand the implications of the Great Recession (2007-2010). In this book Florida documents transformative change that occurred following the Long Depression of the late 1800s and the Great Depression of the 1930s. Bottom line, with traumatic events like depressions and global wars, the "status quo" is up-ended enabling and driving transformative change in economies, societies and governance. We used *The Great Reset* to help us anticipate potential profound change coming out of the Great Recession.

Crashes can be "localized" or "regionalized." Local crashes are typically tied to one of two causes for the crash – massive natural disasters and/or loss of dominant employers. Massive coastal flooding and sea level rises are threatening the viability of hundreds of communities along America's waterways. Cycles of catastrophic hurricane related flooding have challenged entire communities in North Carolina that are either moving into or are already in deep decline as residents are leaving. For too many communities, particularly in rural America, they are one-industry or single-employer towns.

Local Economic Restructuring Events. Higher-impact economic crashes are often driven by global or national forces impacting entire industries and regions. But economic crashes can impact individual communities like the Watts Neighborhood in Los Angeles or what is happening right now in Sidney, Nebraska where the acquisition of Cabela's Outdoor Outfitters by Bass Pro Shop is creating an economic crash in the small, rural areas of Western Nebraska and Northeastern Colorado.

When the silver mines closed in Aspen, Colorado, the community nearly became a ghost town until a new industry of skiing took root and transformed it into a community for billionaires. For every Aspen story there are dozens where community renewal never comes. For example, in 1900 there were 800 communities in Nebraska and today there are just over 500 representing a 38% decline.

Regional and Sectoral Restructuring Events. Community-level crashes can devastate a local community. The hollowing out of Detroit has generated massive economic, social and personal adverse effects to core city neighborhoods while the larger Detroit Metroplex has thrived by and large. But regional scale and sector crashes create deeper and wider-spread devastation. Some regions impacted by these transformative changes never really recover to previous levels of prosperity and vitality without massive external intervention. America's Appalachian region has long been a hard-scrabble landscape. For generations parts of this multi-state region were among the most distressed and challenged regions in America. But massive investment and intervention by the Appalachian Regional Commission (e.g., federal, state and local collaboration) has actually moved many counties from distressed to fairing comparably to the nation.

Regional crashes impact multi-county areas where dominant industries like coal mining or furniture making contract or disappear undermining the economic rationale and viability of a collection of communities. Following we share some mini-case stories from across the United States of regional and local crashes to illustrate our point that failing economies are real and widespread making the case for more promising economic development approaches.

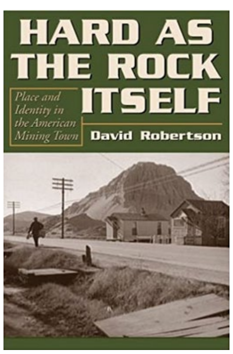
Mini Case Stories

Timber and the Pacific Northwest. We begin our tour of failing economies in the Pacific Northwest and its run as a timber economy. Throughout the northwestern United States there are remarkable timber resources. These resources for decades fueled a vibrant lumber economy. Global trade and changes in resource management crashed the timber industry and communities too dependent on timber also crashed.

Watts Neighborhood in Los Angeles. During World War II the Watts Neighborhood in central Los Angeles boomed as a working and middle-class African American community. Drawn by available and good jobs in war related industries in LA, African Americans migrated to take advantages of these opportunities. Racial red lining forced African Americans to live in specific neighborhoods like Watts. As industrial activity moved out of the big cities, this community experienced decline. Over time Watts became known for its gangs, drugs, violence and failure. Many African American families then migrated to other communities in LA where there were greater opportunities. Today Watts is seeking a new formula for success as a Hispanic majority and minority Black community.

Mining in the Rocky Mountain West. Mining has a long history of boom and bust cycles. It is a natural resource extractive industry. Once favorable deposits are mined and markets change, entire communities can collapse. This was the case with Colorado communities like Telluride and Aspen. When these were booming mining towns, fabulous wealth was created. These were also single-industry towns always vulnerable to collapse. Finally, they did collapse and were eventually revitalized by tourism driven by their natural beauty and snow skiing. Not every mining community found a way forward as any historic map of the Rocky Mountain West will show ghost towns or places that were once thriving and now are gone.

Ultimate Boom to Ultimate Bust



David Robertson, in his book *Hard as the Rock Itself, Place and Identity in the American Mining Town*, includes the Tri-State Mining District (i.e., Kansas, Arkansas and Oklahoma) as one of his case studies. For over 100 years this region was a major supplier of lead and zinc. It was prosperous and generated amazing wealth during its century-long run. Beginning in the pre-World War I period, lead and zinc deposits were discovered, and mining began. During World War I this region was referred to as the "arsenal of democracy" as it produced inputs for the bullets and shells essential for the war effort. Production continued through World War II and the post-war period for a time. Today, this district has economically collapsed, and many communities are environmental death zones.

Farming and Ranching in the Great Plains. Within America's vast Great Plains Region (e.g., from the Mississippi River to the Rocky Mountains) bison and grass have been replaced with intensive and commodity-based production agriculture. This region is very productive but is overly dependent on the single industry of agriculture. Because much of this agriculture is commodity based, producers and the communities that rely on them are "price takers." A commodity-based economy is always vulnerable to market changes.

Dairy and Wisconsin. Historically, family-scale dairy operations are like family-farm scale hog production, a high-value farming activity with potential for value-added activities such as cheese making. Regions of the country such as Wisconsin, parts of New York and rural California with heavy concentrations of dairy operations, supported thriving communities. As is the case with much of agriculture, small-and medium-sized and family-operated dairies are being forced to the sidelines as automation, low prices and intense competition are driving consolidation and closures. The ripple effects of dairy industrialization are impacting related communities just as has been the case with corn, soybean and cotton production areas.

Auto Making and the Rust Belt. Following World War II and way into the 1970s, America's automobile industry was king worldwide. But as the world recovered from World War II, other nations like Japan, Korea and Germany began to challenge American automakers' dominance. At the same time auto manufacturing was moving south in the United States. Combined, these two trends resulted in massive consolidation in the industrial Midwest, costing these communities hundreds of thousands of good jobs. For a deeper look at the impact of a community losing a major auto plant, check out Janesville, Wisconsin.

Atlantic City, New Jersey. Failing economies can hollow out communities like Detroit and Atlantic City. Atlantic City had been struggling to find the formula for prosperity for decades. As a community it bet on gaming as a pathway forward to revitalization. For a while this strategy worked creating economic activity, jobs and local taxes. However, changes in state gaming laws that expanded gaming throughout the United States negatively impacted Atlantic City.

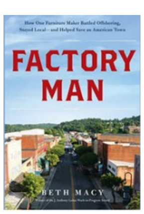
Common Theme

By now our mini stories are becoming repetitive. The location and industry may be different, but the pattern is the same. There is a common theme – commodity and single-economic, sector-based economies struggle to sustain prosperity. Undiversified and single-industry dependent communities and regions crash when those industries faced structural competition change. Economic diversification is foundational to long-term economic and social prosperity.

Apparel in the South. Southern U.S. apparel manufacturing grew as northern manufacturers sought lower cost labor, land and less regulation. But the apparel boom in the south was short-lived as lower cost production areas in the world drove offshoring and loss of plants and jobs in the south. International competitors in Mexico, Latin America and the Far East began to rapidly capture the apparel manufacturing market.

Fisheries in New England. Nearly every natural resource extractive industry in the United States is struggling and is undergoing massive restructuring. This has occurred with the northern Atlantic fishing industry and its coastal communities that are dependent upon generations of family-owned fishing companies. As is often the case, these economic activities do not disappear, but the level and profitability of these activities diminish, adversely impacting the vitality of the communities and regions dependent upon them.

The Collapse of Furniture-Based Economies



Beth Macy, in her book, *Factory Man,* chronicles the story of Bassett Furniture Company and the demise of mass furniture making in America. Restructuring of furniture making is a long story as epicenters of furniture making in the Northeast and Midwest moved to labor sources and lower-cost manufacturing climates in the southeast (e.g., Virginia, North Carolina, South Carolina and Georgia). In a remarkable short period of time, hundreds of furniture manufacturers and hundreds of thousands of related jobs were destroyed beginning in the 1980s. Changes in international trade and the emergence of cheap Asian furniture destroyed entire communities and industries.

Textiles and Furniture in the Southeast. Beginning in the post-World War II period, the South emerged as fertile ground for mass manufacturing rooted in semi-skilled labor. Compared to New York City, Chicago or other industrial communities in the Northeast and Midwest, the South offered lots of low-cost labor, land, incentives and industry-friendly environments. Certain industries like textiles, apparel, furniture and carpets all gravitated to new locations in the south whether in the Virginia-Georgia corridor or in the deep south states. Bottom line in what amounts to about a generation, the South began to lose its competitive edge and American companies began to offshore manufacturing operations to developing countries where costs and regulations were lower, and incentives were higher.

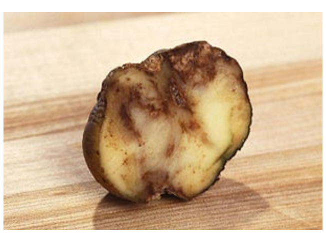
Culture of Hopelessness

In e2's pioneering work with the W.K. Kellogg Foundation and the HomeTown Competitiveness® initiative, we became sensitized to the concept of **hopelessness**. When a culture of hopelessness becomes rooted in a community or region, the ability of that community or region to pursue meaningful community economic development becomes challenged. When too many leaders, organizations and residents believe there may be no pathways forward to better times, this culture becomes a self-fulfilling destiny of chronic and severe decline. In chronically distressed communities a primary early development goal is to create a beachhead of hope that there are pathways forward. Finding and empowering this beachhead of genuine and believed hope (rooted in real assets and opportunities) takes time, resilience and smart development actions. Asset Based Community Development ascertains real assets and opportunities foundational for a community and its residents making the journey from hopelessness to believed hope.

How Crashed Regions Manifest Distress

Crashed economies create crashed societies with profound implications. Now let's explore what happens, whether it is a community or entire region, when an economy crashes.

The Great Irish Famine (the Great Hunger)



Between 1845 and 1849 Ireland experienced what is referred to as the Great Famine or the Great Hunger. Overly dependent upon the potato as a food staple, the potato blight destroyed the ability of Ireland to feed its rapidly growing population. The impacts were profound with an estimated one million Irish residents dying and another million residents emigrating. Overall, Ireland's population contracted rapidly by 20% to 25% during this period. Lacking a sufficient safety net, death, survival and emigration is how this society dealt with this crash. For American communities in the Post-World War II period, the governmental safety nets (e.g. unemployment benefits, SNAP or food assistance, re-employment worker training, housing assistance, etc.) mitigated the dramatic effects of outright death. Nevertheless, with the most American recent crashes, communities and regions are witnessing rising deaths due to crash-related at-risk behavior and dropping national life expectancy rates punctuating how local and regional crashes are now impacting national wellbeing indicators.

When an economy crashes and moves into a period of chronic and severe distress, often the embedded societies associated with these economies also crash. Then there is a progression as residents and societies cope with crashed economies including the following major immediate structural reactions:

- Rising Generational Poverty
- Chronic and Severe Unemployment, Under-Employment and Workforce Disengagement
- Outmigration

Let's explore each of these three structural reactions next.

Rising Generational Poverty. A crashed economy or even an under-performing economy creates less and weaker economic opportunities for residents. Under these circumstances poverty typically rises. If there is family and social "stickiness" (residents who tend to stay and not emigrate), multi-generational poverty can root (versus more short-term poverty when someone is unemployed for a brief period of time). This multi-generational poverty has been the case in Appalachia, the Black Belt and core city neighborhoods that have significantly higher poverty, and particularly deep poverty rates.

Chronic and Severe Unemployment, Under-Employment and Workforce Disengagement. Unemployment and poverty are very connected. Living with safety nets can enable survival but rarely creates prosperity. Neighborhoods, communities and regions that have crashed or crashing economies create unemployment, under-employment and often workforce disengagement.

When these conditions persist over years, we see chronic and severe outcomes. This reaction to a crash is particularly devastating in communities and regions dependent upon one or two major sources of economic activity. If the only really good jobs are in the coal mines and those jobs disappear, there are fewer options for meaningful work that can produce a living wage. In turn, over time these conditions can erode the vitality of families and entire societies as residents shift from meaningful and respected work to other pursuits like gangs, substance abuse and criminal behavior.

Mullen and Macke Family

Family was always so important to my Dad. He was one of seven brothers. These brothers and their wives were like a deeply connected clan. As a young child my Dad and Mom were doing very well in Sterling, Colorado. They owned a business and were middle class. But Dad was driven to be closer to family and we moved to Mullen, Nebraska (population of 459 in 2017). Mullen is a wonderful ranching community, but economic opportunity is limited. As a kid I was not fully aware of what was happening but now I understand that no matter how hard my folks worked, they fell further and further behind. When we moved to Ogallala, Nebraska (population 4,538 in 2017), I remember a borrowed farm truck and a gift from Father Whalen in Ogallala--we could live free in the abandoned rectory if we would fix it up. At that point we were poor, but not generationally poor. Dad and Mom believed that there were more economic opportunities in Ogallala. With resilience and hard work, they rebuilt their lives and once again afforded me and my siblings a middle-class life.

Outmigration. Emigration or outmigration has long been a way to cope with economic and social crashes. The Irish Potato Famine drove one million Irish residents to leave what knew and loved to unknown parts of the world. Today's refugees, whether from Central America or the Middle East, are emigrating out of desperation in hope that somewhere else can offer hope and opportunity.

For some time now in rural America we reference "brain drain" or the idea that the "best and brightest" leave for greener pastures in the cities, while those who stay behind are somehow less capable. *This is personal with me because during my senior year, my high school guidance counselor made the statement that he thought I was smart enough to get out and that I should consider joining the military or maybe college. My parents thought the same and encouraged me to leave even though that was not my first choice.* Our field experience challenges the "brain drain" theory. What we have observed is those who leave have the capacity to vision an unknown future and are willing to take the risk by leaving. In fact, some of the "best and brightest" choose to stay and find a way to their futures.

Why Some Leave?

During field work we have often explored the question why some residents leave while others do not. This is an important question and the answers are likely different in different parts of the country with unique circumstances and cultures. However, we do surface three themes that appear to have more universal relevance: **Culture – Education – Opportunity.** Culture matters and some cultures are more "sticky" (distressed residents are resistant to leave) than others. Education is clearly a pathway enabling people to leave. In the Great Plains, where educational attainment is very high, education allows surplus residents to leave for post-secondary education and pursue careers and lives in the larger world. Finally, there must be perceptions by those leaving that there are greater opportunities somewhere else. My parents scouted Ogallala and experienced its vitality and growth. They perceived that Ogallala, compared to Mullen, offered an environment of greater opportunity. A final consideration for those who stay is that while the overall community is distressed, there are those within the community doing well or okay. They have strong motivations to stay because of how they see others are doing.

Next, let's explore the highly interrelated outcomes and impacts associated with chronic and severe poverty and unemployment. Following this section, we will explore outmigration.

Impacts of Poverty and Unemployment

In this section of the paper we explore the **personal** and **community** impacts and costs of chronic and severe poverty and unemployment. There is a common thread shared by both poverty and unemployment (including under-employment) cultures – eroding labor force participation by working age adults. Before we dive into the personal and community impacts of poverty and unemployment, let's take a side trip into the labor force participation challenge.

The Labor Force Participation Challenge. Throughout the United States there is the chronic issue of households and individuals at risk. Eroding workforce participation is often the leading edge of this sequence of outcomes and impacts associated with crashed or crashing economies and societies. At-risk residents and their families may have the following characteristics:

- **Dropped Out of the Labor Force – No Longer Looking for Work**
- Chronic Substance Abuse
- Mental Health Issues
- Food Insecure
- Deep and Chronic Poverty
- Weak Economies – Lack of Appropriate Work Opportunities

It is helpful to understand the baseline for labor force participation rates in the United States as a reference point for communities and regions experiencing rising unemployment or low labor force participation. The following data provides an overview of the U.S. Civilian Labor Force Participation Rates for 2018 for those residents 16 years of age and older:

Figure 1 – U.S. 2018 Civilian Labor Force Participation Rates

Category	All	Men	Women	Notes
All	62.90	69.1	57.1	12% Gap between Men and Women
16-19	35.1	34.2	36.0	Lower due to school
20-24	71.1	73.2	69.0	Rising participation post school
25-34	82.5	89.1	75.9	Peak for Women
35-44	82.9	90.9	75.1	Peak for Men
45-54	80.8	87.0	74.9	Impact of childbirth
55-64	65.0	71.2	59.1	Dropping rates with early retirement
65-74	27.0	31.6	23.1	Drops off with retirement
75+	8.7	11.9	6.4	Drops significantly off with age

Source: U.S. Bureau of Labor Statistics, 10.22.2019.

Workforce Analysis from Indiana

As part of e2's work with the Lilly Endowment's GIFT VII initiative, we have completed analysis for over one dozen communities in Indiana. **Attachment 1** to this paper provides more detailed analysis specific to an actual county addressing resident dislocation and workforce participation erosion.

Considerations Impacting Labor Force Participation Rates. The following top 10 considerations defining and shaping the nation's, state's or community's labor force participation rates:

1. The Bureau of Labor Statistics counts all **legal residents 16 and older** as potential members of the labor force.

2. The civilian labor force participation rates exclude those in the **U.S. Military and incarcerated persons**.

Incarcerated Residents

If a person is incarcerated, they are not included in the Federal Government's official calculation of available workforce. This makes sense on the surface. However, incarceration rates in the U.S. are among the highest in the developed world. America's "war on drugs" incarcerated huge numbers of often minority, younger men removing them temporarily (during incarceration) and often permanently (unemployable). Communities with high incarceration rates reflect communities with serious economic and social challenges.

3. **Age** is possibly the largest factor shaping participation rates. As the data in Figure 1 illustrates, participation rates rise as younger residents finish school and go to work. As we age, participation rates drop. However, given overall health improvements and financial needs, aging workers are staying in the labor force and retiring later. This trend is likely to continue over the next three decades as Boomers age and transition.

4. **Gender** is also factor. Women historically have had lower participation rates. In 2018 the average participation rate for men was 69.1% compared to women with 57.1% or 17.3% lower than men. Since World War II and particularly with newer generations of women, participation rates are rising. Nevertheless, the role of women as mothers and care givers in our society lowers their rates of out-of-home work. If caregiver roles were considered "work" the participation rates for women would exceed those of men.

5. **Disabilities** continue to impact the ability of adults to engage in the workplace. Despite material progress in employing persons with disabilities, there continues to be significant barriers lowering the rate of employment for this segment of our society.

6. **Mental Health** issues adversely impact labor force participation rates. Persons with severe and untreated mental health issues have problems finding and keeping work. Communities with elevated mental health issues coupled with weaker mental health services tend to have lower participation rates.

7. **Chronic Poverty** can also impact participation rates. Persons in chronic poverty often lack housing, transportation, childcare and other assets to find and keep employment. For example, a working single mother in poverty employed at an hourly part-time job may have to choose between going to work or taking care of a sick child. Reoccurring work absences or tardiness can cause cost these workers to lose their jobs.

8. **Education and Skills** can also impact participation rates. This is particularly true where there is a mismatch between a workers' skills and the jobs available. As we have moved from a lower-skill to a higher-skill economy, we have significant numbers of workers (particularly older and white workers) that structurally fall out of the labor force.

9. **Substance Abuse** adversely impacts labor force participation. Persons with chronic and severe substance abuse health issues are less likely to get and keep work. Often these residents fall out of the labor force for extended periods or forever.

10. **Legal Status** can be an issue. Undocumented persons are unlikely to be counted in the labor force. However, undocumented persons tend to be employed. These workers are often subject to adverse labor practices because of their undocumented status.

Substance Abuse and Mental Health Issues

There is a powerful connection between residents with substance abuse and mental health issues. With the de-institutionalization of persons with severe mental health issues and an overall weak mental healthcare system in the United States, the number of persons with mental health issues combined with substance abuse has impacted at-risk communities (e.g., experiencing both economic and social distress), reducing labor force rates in these communities.

Race is not really an issue overall in the United States with respect to participation rates. However, in communities with high poverty, crime and substance abuse, race can be a factor. The following are the 2018 civilian labor force participation rates for residents 16 and older in the United States:

White and Non-Hispanic	62.1%
Black	62.3%
Asian	63.5%
Hispanic	66.3%
All Others	64.5%

How the Labor Force Participation Rate is Calculated. Because labor force disengagement is the leading edge of failing economies and societies, understanding how the U.S. Labor Force Participation Rate is calculated is important. The U.S. Bureau of Labor Statistics calculated the labor force participation rate as follows:

1. All Legal Residents 16 years of age and older – Total Pool of Potential Workers.
2. Those in the Military or incarcerated are excluded – Civilian Labor Force.
3. Any person working or looking for work are considered in the Labor Force.
4. Persons looking for work, but not working, are included in the unemployment rate.
5. Persons who are not working or looking for work lower the Labor Force Participation Rate.

Alternative Labor Force Participation Rate

Labor force participation rates are not always available from the U.S. Bureau of Labor Statistics for unique geographies. An alternative approach employs the following quick math based on universal statistics for almost every possible geography.

1. Total Resident Population 20 to 64 years of age
2. Total Resident Employment
3. Dividing the value in Line 2 by Line 1 gives an approximate labor force participation rate.

Why is this Important? America is aging and that is lowering our participation rate. We have sizeable populations of persons who are sidelined because of disability, home duties, substance abuse, and poverty that are no longer in the labor force. By understanding your community's labor force participation rate and the factors shaping it, you can better identify and target critical community development priorities and solutions.

Failing Economies and Societies Within Thriving Communities

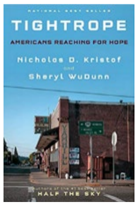
Since 1974 I have lived in Lincoln, Nebraska. Lincoln is a small metropolitan area and home to both state government and the University of Nebraska. Overall economic and resident wellbeing metrics are good and typically better than national averages. Lincoln came through the Great Recession with relatively little temporary, let alone permanent damage. Yet, in this prosperous community there are huge resident wellbeing differences. Like other communities there is a 20-year lifespan difference from Lincoln's most wealthy and poorest neighborhoods. Upward to 40% of all children in school face food insecurity. Lincoln is not unique, and it represents that ensuring all residents are thriving is a continuing challenge for our communities.

Other Impacts of Failing Economies and Societies

Now let's continue our journey into the personal and community costs associated with failed or failing economies and societies that produce growing at-risk populations.

Chronic and severe poverty and unemployment create impacts that adversely impact the wellbeing of individuals, families, communities and entire regions. These adverse effects make development and moving to prosperity much harder.

Tightrope – Americans for Reaching Hope



There is extensive research and writings on the rise of at-risk residents driven by fundamental changes in American society and economy. Researchers and authors Nicholas D. Kristof and Sheryl WuDunn have recently published a powerfully important new book, *Tightrope – Americans for Reaching Hope,* about the crisis in working-class America. We recommend this book as essential background reading.

Personal Costs

The Mental Health Connection. Some at-risk persons have mental health challenges. There is a powerful connection between mental health and at-risk behavior. As an example, veterans' groups, the Veterans Administration and communities across America have come together to address homelessness. This has been a comprehensive strategy that has required other players and solutions like veteran courts, counseling, peer support groups and so much more. Chances are good that mental health is an issue and opportunity for this initiative.

Deaths of Despair – Just Zip Codes Away. A recent CNN story (02.18.20) featured the need for more morgue space in Franklin County, Ohio due to drug overdoses. Franklin County is home to the booming mid-sized city of Columbus. Yet drug overdose related deaths are surging challenging this large community's capacity to handle this crisis. Deaths from substance abuse, often called **deaths of despair,** are a tragic indicator of a collection of failing societies. Hopeless people trapped in drug and alcohol cultures are vulnerable to overdoses and death. While these are personal tragedies, they are also a result of failing economies and societies.

At a macro level for nearly every city of any size there is a 20-year life expectancy difference between the most affluent and poorest neighborhoods. For the last few years, overall U.S. life expectancy rates have been falling illustrating the scale of this crisis. Even in prospering communities like Columbus, Ohio, this outcome of failing communities is playing out every day.

There are powerful ramifications both personally and at the community level with at-risk residents. First and foremost, this is a personal tragedy impacting millions of Americans nationwide. At-risk residents, their families and immediate communities are experiencing profound costs including:

- Loss of personal and economic self-sufficiency
- Rising homelessness
- Dramatic increases in substance abuse
- Rising risky behavior (e.g., drinking and reckless driving)
- Increasing criminal behavior and incarceration
- Domestic violence
- Damaged and often destroyed families
- Ultimately, rising premature death and disability

The book by Kristof and WuDunn graphically illustrates with real people and communities these tragic events playing out. All communities, including those residents not at-risk are also impacted by this trend. The larger community, state and national players have strong self-interests in finding and supporting better solutions to turn the tide on rising at-risk residents.

Hardship Related Transfer Payments. One illustration of the cost of at-risk residents are Hardship Related Transfer Payments. Hardship Related Transfer Payments include Medicare, welfare and unemployment assistance. Largely paid by federal and state governments, not local communities, this is just one indicator of the seriousness of at-risk resident trends. Based on our work throughout the continental United States, we are finding counties where Hardship Payments rank in the top ten, top five and even top three sources of household earnings. Reflecting both structural changes and the legacy of the Great Recession, in many cases Hardship Payments have increased by double digits representing one the fastest growing sources of household earnings for these communities.

Community Costs

Communities are also being impacted dramatically by this trend. We believe there is strong self-interest for local and regional communities to band together to find pathways to solutions. Some of the community costs connected to this community threat include:

- Lost community opportunity
- Community financial costs:
    - Healthcare
    - Crime
    - Public Assistance
    - Law enforcement and courts
- Loss of community hope and optimism
- Challenged and stressed institutions:
    - Neighborhoods
    - Schools
    - Criminal Justice
    - Healthcare including mental health

Next let's drill down into each of these community costs next.

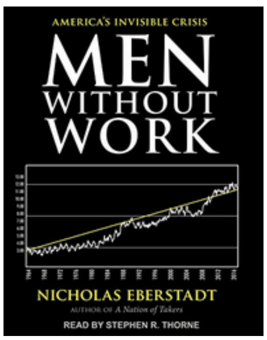
Lost Community Opportunity. Distressed communities do typically have fewer development assets and opportunities. As communities are stressed due to economic and social crashes, communities lose human talent, leadership, economic activities--the building blocks for renewed vitality. It is for this reason that some communities require external intervention and support. Depending on where the community is in its distress (e.g., duration and depth), a point is reached where boot-strapping or self-renewal may not be possible.

Community Financial Costs. Distressed communities with higher concentrations of at-risk residents have increased costs. These costs are tied to uninsured healthcare, rising public assistance costs, increased crime and crime related costs and greater pressure on law enforcement, the courts and the criminal justice system. As the financial capacity of a community is eroding, these costs spike, creating budgetary crises for both government and philanthropy. While some of these costs are offset by federal and state support, there is still a huge and rising local cost.

Loss of Community Hope and Optimism. Earlier in this paper we introduced the concept of a **culture of hopelessness**. Individual and community psychology matters. Expectations translate into behavior. In hopelessness cultures expectations are low and often negative. Day-to-day survival drives this behavior and enables rising at-risk behavior. Conversely, in healthier and more vibrant communities, positive expectations drive behavior that contributes to a cycle of personal and community progress.

Challenged and Stressed Institutions. A community's capacity to envision and support its own development is rooted in institutions like the city, churches, county, chamber of commerce, local schools and private institutions like banks. In distressed communities fracturing and conflict often manifest, undermining a community's confidence in leaders and institutions. Blame becomes part of the culture illustrating loss of trust, erosion of relationships and belief in these institutions to make a difference. In worst case scenarios corruption roots where this conflicted environment becomes toxic.

The Male Breadwinner Crisis



Structural change and job dislocation in more traditional male-dominated industries like manufacturing, mining and timber have generated a crisis for many who have lost their ability to serve as their family's breadwinner. Unfortunately, this crisis is not new. When the traditional way of life and male roles among America's Plains Indians was dramatically and rapidly destroyed, social order quickly evolved into chaos with alcoholism and other high-risk coping behaviors. For over a century, Native communities have been working hard to recover with much yet to be done. The same is true for African American communities. The Watts neighborhood in Los Angeles was a thriving middle-class Black community. But when the industrial jobs that supported these communities left, there was a societal breakdown resulting in cultures of substance abuse, violence, gangs and pre-mature deaths. These two cultures survived in part due to women keeping things together. For further reading on this topic, see *Men without Work, America's Invisible Crisis* by Nicholas Eberstadt, 2016. Templeton Press. ISBN13: 978-I-59947-469-4.

When people in communities lose purpose and the ability to support themselves, at-risk behavior generally follows. At-risk behavior – drugs, violence, workforce disengagement, etc. – then creates sub-communities that are deeply challenged. Multigenerational poverty for example requires extraordinary support to break the cycle and return to greater personal, family and community wellbeing.

Distressed communities produce distressed residents. Distressed communities are created by chronic and severe unemployment, multigenerational poverty and/or have high rates of outmigration. For those with courage and pathways to leave, leaving can be a way out. Since the late 1970s income and wealth inequality has increased steadily and significantly in the United States. More and more Americans are living on the edge or one paycheck from crisis. We now have record numbers of our neighbors who are working poor or low income or have dropped out of the workforce. Creating comprehensive pathways to personal and community health and wellbeing may seem a bridge too far. But as is the case with all overwhelming challenges, there are emerging solutions. The question is whether the scale of these challenges is so great that we become unable to act.

Beyond Emigration and Outmigration

Outmigration is one way certain residents deal with failing or failed economies and societies caused by crashes. Earlier in this paper we talked about how the Watts Neighborhood in Los Angeles was once an African America majority community. Today, only about a third of its residents are Black and now it is a Latino majority community. As racially based housing restrictions eased in LA, significant numbers of Black residents moved to other communities in the LA Basin where opportunities were greater, and crime was lower. For different reasons my family moved from Mullen to Ogallala as a way to cope with limited potential to get ahead.

Before we review the adverse impacts of outmigration, let's review the definitions for both **emigration** and **outmigration:**

> **Emigration** is when someone migrates from one country to another. The United States has been the beneficiary of waves of immigrants arriving in America, some as refugees seeking safety but all seeking opportunity, hoping America could provide both democracy and economic mobility.
>
> **Outmigration** is when someone moves from one American community to another. It could be like my folks who moved less than 100 miles from Mullen to Ogallala or it could be someone who grows up in the Great Plains and moves to the East Coast. Outmigration is the dynamic we are exploring in this section of our paper.

In many ways, outmigration is a **relocation solution option**. Next, let's explore some of the field identified reasons **why residents leave.**

Brain Drain Myth

The **Brain Drain myth** implies the "best and brightest" are deserting rural America and leaving behind those with less ability. Our extensive field work across America challenges this myth. Yes, there has been and continues to be rural to urban migration. For distressed rural communities, out-migration is one of the outcomes of failing economies and societies. What we are observing is those leaving are the **risk takers.** They have the capacity to leave what they know to take a chance on something they do not know in order to improve their opportunities. This is common with the waves of emigrants that have moved to America and across America in the Westward Expansion. The loss of risk takers is a greater threat to rural communities than the brain drain and is likely one reason why some rural communities have become ultra-conservative, more insular and challenged by change.

Now let's explore the three primary costs associated with chronic and severe outmigration and depopulation.

Community Costs of Outmigration. When communities experience chronic and severe outmigration, depopulation can become rooted undermining the very vitality of a rural community and even urban neighborhoods. There are three primary costs associated with significant outmigration:

> **Loss of Markets.** Chronic and severe depopulation resulting in generations of depopulation undermine a community's or region's consumer markets. Fewer people, particularly younger families (they are major spenders), erodes essential markets for area businesses and services. As if external competition (e.g., box stores, franchise and electronic commerce) are not challenged enough, too few local consumers result in weakened, and eventually closed, local businesses.

Loss of Workforce. Despite large numbers of persons not engaged in working and in some cases high unemployment and under-employment rates, even distressed economies are struggling to find the right workers to meet their needs. If there is any growth at all in these communities, the workforce shortages can be acute. Loss of working age adults to outmigration further erodes the available workforce undermining the ability of a region to pursue economic development opportunities. How can a local growing business pursue its development knowing that it may not be able to find the workers it needs? Relocation of an operation where there are workers may make more sense.

Loss of Talent. If our theory that those leaving rural communities are risk takers with the capacity for abstract thinking and greater tolerance for change is correct, the loss of this kind of talent is a huge cost associated with outmigration. With each leaving resident we are potentially losing an important leader, employee, volunteer and future donor. With outmigration our pool of engaged residents contracts further undermining the capacity of a community to take on its own development.

Outmigration and Community Hopelessness

In my home region of the Great Plains where outmigration and depopulation is how this region has coped with crashing economies and societies, communities stress over the annual Census population estimates. The question is not whether there will be population loss but how much. When they complete their annual student census reports, schools document declining school enrollment. The same happens on Sundays when the number of kids in church Sunday schools decline. As discussed earlier in this paper, this pattern of **loss** contributes to negative psychology and a culture of community hopelessness.

Our field work confirms that every community experiencing failing economies and societies experience elevated outmigration rates. There are communities, like those in the Great Plains where I live, where the overall economic and society is actually relatively strong, where outmigration is the primary outcome of structural changes. In regions like the Great Plains, residents are leaving because of automation in natural resource extractive industries (e.g., agriculture, timber, mining, etc.) and undiversified economies simply require fewer people. With fewer people the viability of rural communities and even regional trade centers are challenged.

The Case for Community-Centered Economic Development

In this paper we have laid out the three basic elements for **Community-Centered Economic Development** including:

1. Economic development is a local responsibility.
2. There are pressing needs to grow more vibrant and diversified economies.
3. There are economic development strategies capable of building better economies.

Pursuing smart and robust economic development in crashed economies and societies is more challenging. For some communities, external intervention and assistance may be required to offset profoundly eroded development capacity. For many rural communities and regions, with narrow economies undergoing significant structural changes, successful economic development may seem a bridge too far. Despite this perception, there are examples of communities across North America demonstrating that effective, impactful and transformative economic development is possible. The story of Tupelo, Mississippi* and our soon-to-be-released story of Ord, Nebraska, demonstrate that there are pathways forward for most communities seriously committed to their own futures.

**Tupelo, The Evolution of a Community* by Vaughn L. Grisham, Jr. (1999) and *Hand in Hand, Community Economic Development in Tupelo* by the Rural Economic Policy Program within the Aspen Institute (1999).

Other Economic Development Resources. Over the years our e2 team and network of community economic development collaborators have written extensively about **economic development**. There are four papers we have produced that might offer both a contemporary but also an evolutionary view on both economic development generally and rural economic development more specifically:

2010 – *Economic Development in the 21st Century*
2011 – *Economic Development, An Overview*
2012 – *Overview of Economic Development**
2014 – *Rural Community Economic Development Guide*

You may want to access these resources for deeper insight and perspectives.

*Co-produced by the Don Macke with the RUPRI Center for Rural Entrepreneurship and Nancy Arnold with the Rural Research and Training Center on Disability in Rural Communities (University of Montana) and published in the State of the Science Report (April 2012).

Conclusion – Making the Case for Entrepreneur-Led Development

In a companion paper – **Why Entrepreneurship? The Case for Entrepreneurship!**– we explore why entrepreneur-led development with a strong focus on entrepreneurial ecosystem building is foundational to all community-centered economic development. Most communities and regions have the potential and capacity to grow a brighter future with sufficient commitment to a smart and robust economic development strategy.

Attachment 1 – More on Workforce Participation in Indiana

In our Chart Books we provide **economic drivers** for communities based on both "household earnings" and "employment" generated by traditional and non-traditional economic sectors. Based on household earnings, **Hardship Related Transfer Payments** often are among the top five economic drivers for communities in Indiana. Like Labor Force Participation Rates, Hardship Related Transfer Payments provide insight on "at-risk residents and communities."

Based on 2017 household earnings the top five economic drivers in Indiana are:

1. Retirees*	$84 billion
2. Manufacturing	$44 billion
3. Health Care	$28 billion
4. Government	$26 billion
5. Hardship Related Transfer Payments	$17 billion

*Retiree earnings include dividends, interest and rent income plus Age Related Transfer Payments including Medicare and Social Security.

Data Source: U.S. Bureau of Economic Analysis provided by Headwaters Economics (www.headwaterseconomics.org), 10.22.2019.

Hardship Related Transfer Payments include:

Medicaid	$11.501 billion
Welfare	$5.001 billion
Unemployment	$0.266 billion

Hardship Related Transfer Payments have changed significantly over the decades:

1970	$1.143* billion	0.9% of all Indiana Personal Income
2000	$8.290 billion	3.3%
2017	$16.768 billion	5.4%

*Financial values are provided in 2018 dollars and are inflation adjusted. In other words, a dollar in 2017 would have the same purchasing power as a dollar in 1970.

The rise in Hardship Related Transfer Payments is another leading indicator of rising household and community distress.

Creating pathways for at-risk persons and communities to return to greater wellbeing and workforce engagement also carries with it the opportunity to meet workforce needs among employers in your community. Just as we have an at-risk community challenge, we also have a growing workforce shortage challenge.

Helpful Tips and Resources

- **Data Sources**. U.S. Bureau of Labor Statistics (BLS) produces a national monthly data series based on data collected via the Current Population Survey. For smaller geographies, the best option is probably the American Community Survey, which is the data included in the Populations at Risk report from Headwaters Economics www.headwaterseconomics.org.

- **Formula for Calculating Labor Force Participation Rates.** In very broad terms, the labor force participation rate is the proportion of the labor force (employed and unemployed looking for work) to the total population of working age. Looking at the data from both the BLS/CPS survey and the ACS survey, there seems to be a distinction made as to whether the reference population is all 16+ people or noninstitutionalized of the same age. Also note that Headwaters further included an upper age limit of 64, which is different from the other survey sources.

- **Factors.** The BLS/CPS survey includes questions about why respondents are not in the labor force; current results are available online https://www.bls.gov/web/empsit/cpseea38.htm and break down some of the reasons given. The Congressional Budget Office also published a report in 2018 about factors affecting labor force participation https://www.cbo.gov/publication/53452 that may be relevant.

- For those wanting to learn more there is a helpful paper from the Federal Reserve Bank of Kansas City, *The Uneven Recovery of Prime-Age Labor Force participation.*

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International Users. If your organization is located in or focused on non-U.S. locations, we are open to collaborative efforts to translate our work into other languages and cultures for possible use. Contact Don Macke at don@e2mail.org to explore options.

Kansas and Nebraska Users. Nebraska and Kansas have played an extraordinary role in evolving our e2 development framework. Access to e2 University resources is available free of charge to end users through NetWork Kansas and Nebraska Extension in Nebraska.

A Condition for Access and Use of e2 University Resources

In all cases e2 asks users to execute a **use agreement.** As part of this agreement, we require a commitment from you to share your learning back with e2. We need user feedback to continue our learning so that e2 can support entrepreneurship ecosystem building and future resources for users yet to come.

Additional Help

Don Macke is not currently accepting new advising and consulting work. However, based on scheduling availability, Don is willing to do an exploratory call to better understand your needs and expectations, and recommend pathways forward. Contact him at don@e2mail.org.

How e2 Can Help

e2 Entrepreneurial Ecosystems helps communities increase prosperity through entrepreneur-focused economic development and ecosystem building. Led by **Don Macke,** e2 has a national team of practitioners who bring research, coaching, incubation, market intelligence and other expertise to this work.

What We Do

- ✓ **Mentoring.** We mentor and coach new practitioners seeking to pursue entrepreneur-led development. We provide advice and support for building eEcosystem strategies that work.

- ✓ **Analytics Support.** e2 helps communities and regions understand their entrepreneurial potential through research and data. Explore some of our research tools and reports here.

- ✓ **e2 University (e2U)** is our platform for sharing more than 1,000 guides, papers, stories, tools, and resources with communities wanting a deep dive into eEcosystem building. Don Macke leads the e2U team with analytics support from **Cathy Kottwitz** and report preparation from **Ann Chaffin.** Special recognition for their e2U legacy contributions goes to **Dana Williams** and **Deb Markley,** LOCUS Impacting Investing.

- ✓ **Fostering the eMovement.** We support the national entrepreneurship movement along with our partners including the **Federal Reserve Bank of Kansas City**, **SourceLink**, **Edward Lowe Foundation**, **Kauffman Foundation**, and **NetWork Kansas**. We are a founding member of Start Us Up: America's New Business Plan, a coalition dedicated to strengthening entrepreneurship across America. Together, we continue to advance the foundational ideas of building entrepreneurial ecosystems and entrepreneurship-led economic development.

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