

Rural Development and the Economies of Rural Areas

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Local economic conditions in rural areas are the outcome of processes that are both local and non-local in origin. More localised influences include the sectoral mix of businesses, the functioning of social and business networks, and other aspects of local human capital. Other influences, however, will be regional, national or international in their scope. These involve the operation of geographically extensive market relations, regulatory and fiscal systems, and demographic processes.

A consequence of these wide-ranging influences is that much that determines local conditions in rural areas lies far beyond the realms of conventional 'rural' policies. Considering the functioning of, and prospects for, rural economies requires open and holistic perspectives that identify and trace interconnections, but these perspectives do not sit comfortably within the neat categories of policymaking institutions. This paper considers the notion of 'the rural economy' before going on to discuss the ways that rural areas feature within spatial policy and economic development in the UK. It then considers some current issues in debates about rural economies – productivity, diversification, and rural–urban interdependencies – before drawing conclusions.

Conceptions of the 'rural economy' and rural economies

'The rural economy' is not a simple, self-evident or neutral concept. It can mean different things to different people and can be a term that is liberating for some interests and constraining, or even threatening, for others. The idea of 'the rural economy' is regularly invoked by national and local politicians, and by interest groups. It is a concept that gets mobilised for particular ends, and is often popularly understood as a particular type of economy.

Winter draws the distinction between the traditional rural economy, 'based firmly on its local natural resource base' (1996: 90), and a *new* rural economy. He argues that the growth and diversification of the new rural economy has meant that many traditional rural economic activities have become 'hidden from view', citing the example of field sports such as hunting and shooting, which 'might be a relatively small-scale activity alongside so many other growing economic activities, but ... is special in so much as it is a non-agricultural activity directly dependent upon the land' (Winter 1996: 96). This is in contrast to other businesses 'which might just as well be based in Bradford, Birmingham or Brighton' (Winter 1996: 97).

When some interest groups talk of 'the rural economy' they are often implying Winter's traditional rural economy. The rural economy can therefore be thought of as a normative term. Some activities are traditional, more rooted to the land, 'special' even; others could be anywhere. They just happen to be located in rural areas.

Widening the definitional boundaries

Such normative use of 'the rural economy' is full of inclusions and exclusions. On the fifth anniversary of the 2001 outbreak of foot and mouth disease, I published, with colleagues, a study examining the legacy of the crisis (Donaldson *et al* 2006). Press coverage of the study focused heavily on the comparison we drew between the financial payments that were made to compensate farmers for their livestock losses (£1.34 billion) with the new money allocated to help business recovery in the wider economies of rural areas (just £39 million by the end of 2001). The report and the coverage prompted some public debate about the place of farming in rural economies, and the merits or otherwise of a 'rural economy' perspective for the economic wellbeing of farmers and others in rural areas. One response I received following publication of the report went as follows:

' ... it strikes me that the authors have a very clear agenda, which is basically to do with marginalising farming ... [The report] begs the question of what is the rural economy? To the authors, it would appear to consist of all economic activity in the countryside, except farming. I would argue that the genuinely rural economy is essentially the land-based economy – the activities that by their very nature can only take place in the countryside. That is where rural economic problems are concentrated, and that is why [the Government] were, in my view, quite right to focus on problems and solutions for farm-based businesses.'

This response uses Winter's traditional rural economy as synonymous with the 'genuine' rural economy. It shows how notions of 'the rural economy' or particularly 'the wider rural economy' can also be taken as particular and exclusionary – and to imply everything other than farming. The argument in this chapter is that rural economies should ideally be seen in open and inclusionary terms. They will include land-based businesses such as farm businesses, but much more besides.

If we are interested in the economic development of the rural areas of the UK, the risk is not that we do not concern ourselves with Winter's 'traditional rural economy' enough, but that we worry about it far too much. I want to argue that if our objective is to improve the economic wellbeing of people who live in rural areas, including those in land-based industries, it is time to refute the idea that 'the [genuine] rural economy' is an agricultural or a land-based economy. Agriculture comprises only 1.8 per cent of the national labour force, and even in the rural areas of England it is only, on average, 2.6 per cent, and the sector accounts for just 0.8 per cent of the UK's Gross Value Added (GVA) (Defra *et al* 2005, Countryside Agency 2004).

Employment and employers in rural economies

There is a steady convergence between the sectoral profile of businesses in rural and urban areas. In both urban and rural areas, the two largest sectors in terms of the number of businesses are wholesale and retail, and business and professional services (Countryside Agency 2004). The Countryside Agency's analysis of rural economies (2003) identifies four key sectors for employment in rural areas: distribution, hotels and restaurants; public administration, education and health; manufacturing; and banking, finance and insurance. More than 80 per cent of employment in rural areas is accounted for by these sectors.

Although businesses involved in agriculture and fishing make up 13 per cent of the total number of *businesses* in England's rural areas, their numbers are declining more rapidly than all other sectors, and there is an even greater loss of jobs. Between 1998 and 2002, the number of jobs in agriculture and fishing in England's rural areas dropped by 26,000, or almost 16 per cent. Over the same period, almost 230,000 net new jobs were created in distribution, hotels and restaurants, and in banking and finance – almost nine times as many as were lost from agriculture and fishing (Countryside Agency 2004). Overall, the number of jobs in England's rural areas grew by 275,000 – proportionately a greater improvement over the five-year period (5.3 per cent) than for urban areas (4.7 per cent).

Businesses in rural areas are also more likely to be small – microbusinesses, employing 10 or fewer people. In England, microbusinesses make up 85.4 per cent of all businesses in rural areas and 82.6 per cent in urban areas (Countryside Agency 2004). There are also noticeably higher proportions of people in rural areas who are self-employed (14.5 per cent) than in urban areas (11.8 per cent) (Smallbone *et al* 2002, Winter and Rushbrook 2003). The prevalence of very small firms and the self-employed in rural areas raise questions not widely addressed in conventional economic approaches to understanding firms and markets, which are often modelled on the behaviours of larger businesses. For example, there is a stronger sense of firms and households being more intricately bound up together in rural economies – and sometimes the household is a more appropriate unit for analysis than the firm (Bennett and Phillipson 2004).

The notion of 'the rural economy' remains highly problematic. It implies some sort of closed and unified economy, and is often used to focus on traditional rural economic activities such as those tied to the land. Following Allanson *et al* (1994), I would argue that rural economies are diverse, complex and open systems, which are shaped by some processes that are localised but also by many that are not. I would also argue that, contrary to the response to our report on the foot and mouth crisis quoted above, no special privilege should be given to forms of economic activity that are tied to the land. Any type of business can feature in the economies of rural areas, and this is a good thing.

Rural economies: sectoral and spatial perspectives

Rural areas and rural development issues do not have much influence over national economic policy. Agriculture still has a national policy profile but continues to be conceived and managed as a national economic sector rather than as a force for territorial development. Experience across the OECD countries suggests that sectoral approaches to agricultural support and development deliver only limited wider benefits for rural people and territories (Organisation for Economic Cooperation and Development [OECD] 2004).

There were signs in the early years of the current Labour Government that the role of agriculture might be rethought as an integral component of rural (territorial) development, rather than as a separate economic sector. For example, the Cabinet Office Performance and Innovation Unit's review of government objectives for rural economies (1999) devised a path to bring agriculture within a rural development framework. The subsequent government decision to apply discretionary modulation to the financing of the CAP and its second pillar – the Rural Development Regulation – for the 2000–2006 financial perspective also implied greater emphasis on a rural development and agri-environmental rationale for CAP expenditure, to the detriment of direct compensation payments to farmers (Lowe *et al* 2002).

Indeed, December 2000 was probably the high point of this more reformist, territorial approach to agriculture and rural development. Two months later, in early 2001, foot and mouth disease (FMD) struck, and there has been a retrenchment into a more sectoral approach to agriculture since then. After FMD, the Government established a Policy Commission to look at the future of food and farming, and the work of the Commission presented a highly sectoral (supply-chain) perspective on the future development of the farming industry (Policy Commission on the Future of Food and Farming 2002). The subsequent White Paper (Defra 2002) and reorganisation of Defra nationally and in the regions has reinforced this sectoral concern with the operation of food and farming supply chains and the competitiveness of the industry (see also Donaldson *et al* 2006).

Geographical variation in the treatment of rural economic issues

Rural economic issues do not feature prominently in spatial development policies, although their treatment does vary across the different parts of the UK. Spatial development policies include rural affairs/rural development, regional economic development, and strategic spatial planning. Scotland, Wales and Northern Ireland all now have Departments of Rural Affairs or equivalents, although agriculturally orientated approaches have continued to dominate rural policy and spending in recent years. This is, in part, because of the stronger political commitment to a social welfare rationale for agricultural support in Scotland and Wales. Indeed, Welsh policy is to maintain the existing agricultural structure, and support what is seen as the 'traditional Welsh family farm'.

The role of Regional Development Agencies (RDAs)

In the English regions, the treatment of rural areas within spatial policy has developed considerably. The institutional ancestry of the RDAs, coupled with the political debates around their establishment, meant that RDAs have had to pay some regard to rural areas, and this has prompted some, at least notional, consideration of the rural dimensions of regional economic development in the English regions.

However, RDAs' work on rural affairs and rural development has been hampered by three factors:

- First, national co-ordination on rural affairs between the RDAs is relatively weak (in comparison with the work of the former Rural Development Commission, which was a single national body with a narrow and specific rural development focus).
- Second, nationally prescribed performance targets strongly influence RDAs' investment priorities and militate against large numbers of small investments for relatively modest returns, encouraging the agencies instead towards a 'fewer-bigger' approach.
- Third, within central government departments (DTI, ODPM, and the Treasury) and among key ministers, increasing interest in core cities and city regions has directed policy attention and investment priorities towards urban renaissance and infrastructure. This has reinforced a preoccupation with these issues among the economic development professionals that dominate RDAs and other regional and sub-regional agencies, and so poses new challenges for rural development interests if they are to avoid becoming further marginalised from territorial development planning.

While recognising the different, and sometimes competing, influences and pressures shaping the work of RDAs, there is considerable scope to improve areas of RDAs' rural work. These include the interface between RDAs' regional activities and national rural affairs priorities, the means by which some rural development issues might be more effectively mainstreamed through RDAs' economic development work, and the potential for RDAs to collaborate on pan-regional rural development initiatives, including across the Scottish and Welsh borders.

City regions and what they mean for rural development

Over the past couple of years the idea of 'city regions' has quickly emerged as a new buzzword among economic development professionals across the UK (for example, Marvin *et al* 2006, Marshall and Finch 2006). This is largely a consequence of the loss of political momentum behind the processes of decentralisation and devolution to the English regions, but the term also features strongly in debates about Belfast and Scotland's central belt. The term 'city region' was first used by Patrick Geddes almost a century ago to describe the growing conurbations. There was renewed interest in the idea in the 1960s during debates about local government reorganisation, prompted by the Redcliffe-Maud Commission (1966–69) (Midgley and Ward 2005: 22–23, Centre for Rural Economy 2006). These two phases of interest were the product of profound changes in the economic and social geography of the UK, first as a consequence of urban industrialisation and the development of the railways, and second as a result of the growth of the motor car.

The current context is also one of profound social and economic changes, this time as a result of globalisation and information and communication technologies (ICT). Yet the idea that city regions are at the cutting edge of a new age of urban economic competitiveness in a globalising world is open to question, not least because the technologies that are playing such a key role in current socio-economic changes can be seen as fundamentally decentering technologies. ICT allows people to live, work and run businesses in all sorts of places.

In the north of England, city regions have been given new impetus through the Northern Way Growth Strategy, launched in 2004 (Northern Way Steering Group 2004). This pan-regional initiative involves the three northern regions in a growth strategy to raise the economic performance in the north, and focuses efforts on eight 'city regions'. Its city region approach is strongly influencing the work of the three RDAs for the northern regions. In the north west and north east regions, in particular, city regions feature prominently in the new Regional Economic Strategies for 2006–16. In the north east, the city region concept is also central to the new Regional Spatial Strategy. RDA investment priorities, and regional land use planning priorities, are being reconfigured from the perspective of strengthening the economic performance of city regions.

The city region concept is therefore already having a deterministic influence on the planning of regional development, even if this is in advance of there being a clear sense of what city regions really are. The Northern Way Growth Strategy suggests that the city regions encompass '90% of the North's population and more than 90% of the North's current economic activity and economic assets' (2004: para B1.1). However, the way that city regions are defined (even for the purposes of such statistics) remains a mystery, hidden behind a language of 'fuzzy boundaries' and 'flexible geographies'.

Challenges for rural areas

The city region approach reproduces a rural development problem. It establishes and reinforces out-of-date notions of geographical centrality and hierarchies, and it actively marginalises places, consigning them to the periphery, dividing and polarising. City regions are taking root in regional economic development and spatial planning across the UK, and they are raising profound challenges for those involved in the economic development of rural areas.

There are two ways of seeing the role of rural areas (and their businesses, communities and landscapes) in the development of regions. One is as passive beneficiaries of urban-focused strategies. This assumes that rural areas will benefit from overall regional growth, and that any interventions focused on city regions will bring trickle-out benefits to wider rural areas. A second outlook is to see rural areas and their assets as active contributors to the development of cities, city regions and even national territories. This need not overplay the role of rural areas in regional development, but it does suggest that market towns and villages, and rural landscapes and assets, make a contribution to the competitive appeal of city regions. Furthermore, their appeal is not just as an area of consumption, but also as attractive locations for growth-orientated businesses.

Positive initiatives for rural development

While the enthusiasm for city regions may pose challenges for rural development, two recent sets of developments give rise for optimism in progressing territorial approaches to rural development. These are the experience of the Market Towns Initiative, and the production of Planning Policy Statement (PPS) 7 (*Sustainable Development in Rural Areas*) by the ODPM (2004).

Market Towns Initiative

The Market Towns Initiative (MTI) has built up a new body of knowledge and experience about the regeneration of market towns and their contribution both to the development of their rural hinterlands, and to the appeal of regions and city regions. The MTI involved more than 200 market towns in England, and provided support via a web-based toolkit to assist in market town health checks, financial support for market town officers/co-ordinators to deliver action plans, and a national learning network.

The initiative was judged by evaluators to have been successful in providing the stimulus – and a focal point – for a wide range of social, economic and community development activities. The venture also raised the profile of market towns, and their development problems and opportunities, among the main agencies and authorities. It also highlighted new regeneration opportunities within towns, and enabled some market towns partnerships to bring in significant additional regeneration funding, and influence the plans and strategies of other organisations (Entec UK Ltd 2004).

PPS 7: Sustainable Development in Rural Areas

Planning Policy Statement (PPS) 7, *Sustainable Development in Rural Areas* (ODPM 2004), was produced in the wake of the Government's 2000 Rural White Paper (DETR/MAFF 2000), and represents a more flexible and proactive approach to economic development in rural areas. It sets out one of the Government's objectives for rural areas relevant to the PPS as 'promoting the development of the English regions by improving their economic performance so that all are able to reach their full potential – by developing competitive, diverse and thriving rural enterprise that provides a range of jobs and underpins strong economies' (ODPM 2004: 6).

Over recent decades, countryside planning has been dominated by strongly preservationist concerns, but PPS7 opens up the possibility of moving away from a prohibitive and regulatory approach to local rural planning, towards one that is more enabling of development. PPS7 offers local planning authorities the scope to allow new development in rural settlements that are not local service centres 'in order to meet local business and community needs and to maintain the vitality of these communities' (ODPM 2004: para 4). It also encourages a supportive approach to development associated with farm diversification schemes for business purposes. PPS7 requires local planning authorities to set out clear criteria for permitting economic development in locations outside local service centres, including the future expansion of business premises, 'to facilitate healthy and diverse economic activity in rural areas' (ODPM 2004: para 5ii).

Of course, the challenge with such PPSs is in their translation from national guidance to the practices of local planning officers and the decisions of planning committees. Nevertheless, PPS7 is not a licence for strictly preservationist planning and, if engaged with imaginatively, ought to enable a more developmental approach to rural areas and economies.

Current policy issues in rural economic development

Productivity

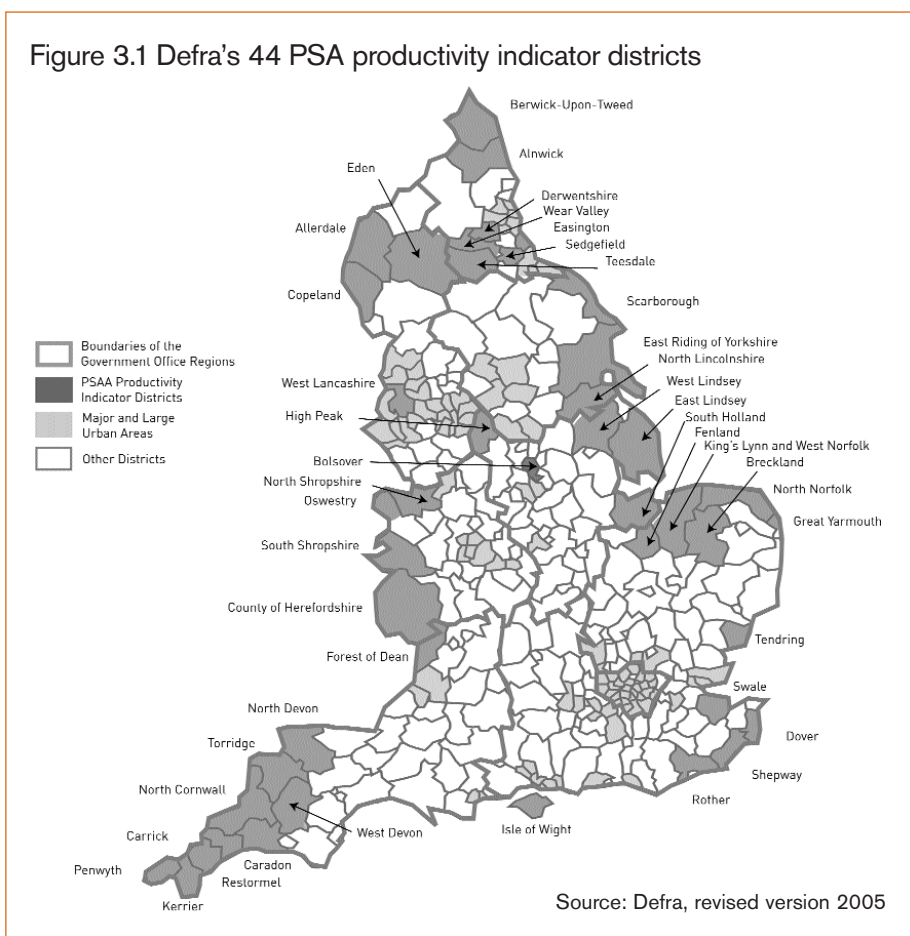
The Government has become increasingly interested in the question of productivity in the UK, prompted by a series of studies conducted by the Treasury (HM Treasury 2000, 2001a, 2001b, 2003, 2004a). Based on the Treasury's analysis, the Government established five priority areas for action – referred to as the five drivers of productivity growth: investment, skills, innovation, competition and enterprise.

A new Rural Productivity Performance Target

The Public Service Agreement (PSA) targets agreed as part of the 2002 Comprehensive Spending Review (HM Treasury 2002) contained new targets for economic development with an explicitly territorial dimension. These included, for the first time, a specific, quantitative and measurable target for the economic development of rural areas. Subsequently refined as part of the 2004 Review, Defra's Rural Productivity Performance Target is to:

'... reduce the gap in productivity between the least well-performing quartile of rural areas and the English median by 2008, demonstrating progress by 2006, and improve the accessibility of services for people in rural areas.' (HM Treasury 2004b)

The target for Defra has prompted a great deal of interest in how productivity can be understood, and how policy measures might be devised to raise productivity levels in local rural areas. Forty-four indicator districts have been selected in England from the less well performing quartile of districts, through a process of statistical analysis of economic data, followed by consultations with stakeholders in the English regions (see Figure 3.1).



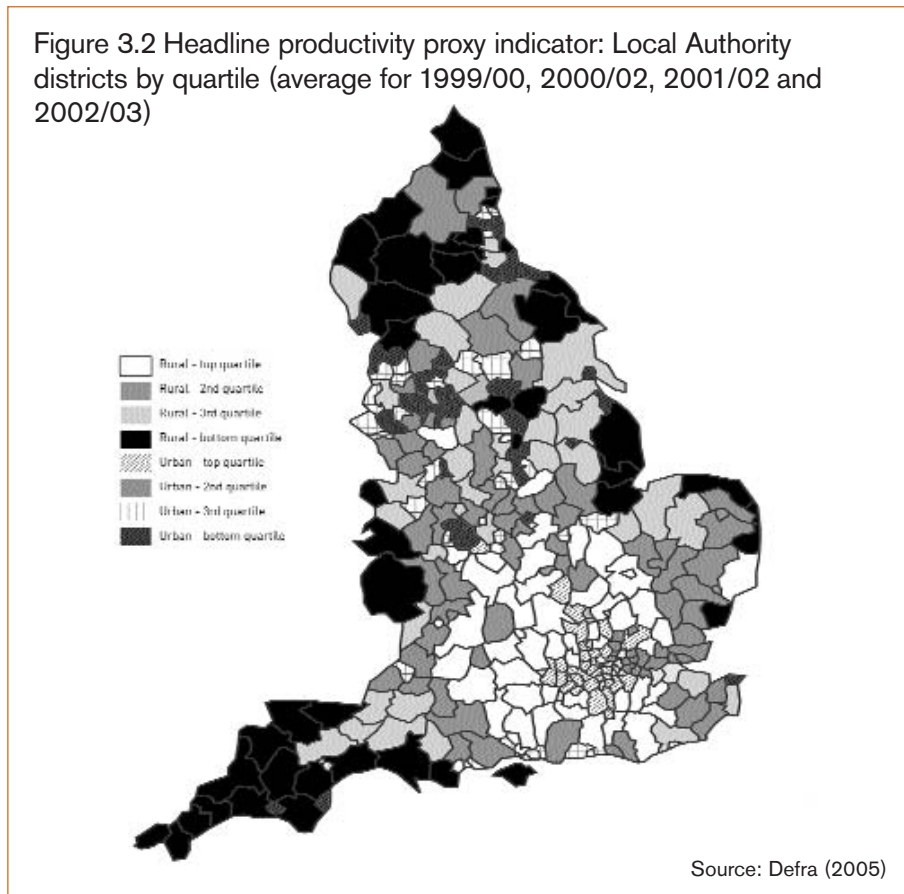
Defra has recently produced a rural contribution to the Treasury's productivity studies – *Productivity in Rural England* (Defra 2005). The report discusses definitions of productivity and what these might mean for rural areas and rural economic policy instruments. Productivity is argued to be a key determinant of living standards, and the Government has focused in particular on labour productivity – output per person or per hour worked. At local authority district level, the Government uses earnings as the best available proxy for Gross Value Added (GVA), and earnings have been estimated to account for 60–65 per cent of GVA (Defra 2005). Defra is therefore using earnings per head of working population as the headline productivity indicator, although there are significant differences according to whether data is derived from where people live or where they work.

Figure 3.2 shows the Government's headline productivity proxy indicator for local authority districts in England and illustrates the influence of London on England's spatial economy. Rice and Venables (2004) have demonstrated how spatial variations in productivity between Britain's sub-regions (comparable with counties, for example, under the EU's NUTS 3 level for territorial statistics) can largely be explained by proximity (within 80 minutes' driving time) to larger urban centres. Defra's analysis also illustrates how some of the variation in productivity performance in England's rural areas can be explained by the historic importance of primary industries to that area.

Productivity growth targets from the rural perspective

Defra has assessed the Treasury's five drivers of productivity growth from the perspective of rural areas. The analysis of investment in rural areas is relatively limited in the study. However, when the 354 English districts are ranked by levels of capital investment, 17 of the 20 with the lowest levels of investment were in Defra's 'most rural' category, while only one of the top 20 (West Berkshire) was rural. The analysis also

Figure 3.2 Headline productivity proxy indicator: Local Authority districts by quartile (average for 1999/00, 2000/02, 2001/02 and 2002/03)



Source: Defra (2005)

associates poor productivity performance in rural areas with skills levels and low educational attainment (Agarwal *et al* 2004). One possible explanation for the prevalence of low qualifications in some rural areas is a low skills equilibrium, with firms operating in low value-added markets demanding relatively low skills levels from their employees.

On innovation, Defra's study concludes that there are grounds for believing that firms in rural areas are less innovative than their urban counterparts (Defra 2005). For example, research by SQW consultants for Defra in 2005 used surveys to examine the use of ICT among businesses in England's rural areas. The research found that, in general, rural businesses adopt ICT significantly more slowly than their urban counterparts, although the slower adoption is more the result of weaker drivers promoting ICT rather than inherent barriers to adoption. The study found that rural businesses continually have to play 'catch up' with broadband, with only 40 per cent of internet users using broadband in rural areas compared to 60 per cent in urban areas (SQW 2005).

Competition among firms in rural areas is likely to be affected by the relative sparsity of populations and businesses, and by greater geographical distances. However, it is notable that the number of businesses per 10,000 of population is higher in most remote rural areas than for all other types of areas except major urban centres (Defra 2005). The evidence on competitiveness and the competition between businesses is mixed, and the reasons for differences between urban and rural areas are likely to reflect their inherent characteristics. On enterprise, the review underlines the importance of in-migrants to rural entrepreneurship (see below and Stockdale 2005: 119-133).

The PSA target has not been free from criticism. For example, Lord Haskins dismissed it as 'aspirational and woolly' and impractical (Haskins 2003: 35). However, the target has helped generate considerable improvements in the evidence base and the level of analysis of drivers of economic performance in rural areas. There is increasing evidence of market failures in labour mobility, investment and competition, and these may serve as the starting point for improving the rationale for government interventions to stimulate rural development, both nationally and in regions and sub-regions. At the same time, the technical focus on GVA, and earnings as a proxy, also raise fundamental questions about the objectives of economic development. These include whether the right things are being measured and the nature of the relationships between GVA, earnings and wellbeing (see Layard 2005). These are important questions, and some local authorities are starting to address them.

Critics of the PSA Rural Economic Performance Target approach face the legitimate question of what might serve as a more appropriate indicator. However, it is clear that earnings are only part of the story of the economic wellbeing of households in rural areas. Analysis by the Countryside Agency (2003) has shown that, in many rural counties, income other than wages and business earnings can provide a substantial share of household income. For example, in the rural parts of the north west region, almost a third of the population are retirees, compared to only 18 per cent for the region as a whole. Therefore the Treasury's favoured productivity measures may be less appropriate than other measures such as Gross Disposable Household Income. The effects of retirees and commuters in rural areas can mean that different indicators give sharply different impressions of how rural areas are faring compared to national averages.

Diversification

A prominent strategy within rural economic development has been to encourage diversification. This has principally centred on the diversification of farming businesses, and has been fuelled by recognition of the need to respond to farming income and viability problems by incentivising farmers – through grant schemes and advisory services, for example – to develop diversified enterprises on their farms. A survey of farm diversification in England in 2002 found that 58 per cent of 1,624 surveyed farms were involved in some form of diversified activity (Centre for Rural Research 2002). However, many of these activities are closely related to farming: alternative crops, agricultural contracting, farmhouse bed and breakfasts, and farm shops.

Public financial support to assist farm diversification usually serves to help farmers stay in agriculture, rather than to fundamentally reorientate their business. This agricultural perspective on farm diversification is also reinforced by the planning system. For example, in giving guidance on farm diversification, PPS7 justifies diversification as 'vital to the continuing viability of many farm enterprises' (ODPM 2004: 16), and exhorting local planning authorities to:

'... be supportive of well-conceived farm diversification schemes for business purposes that contribute to sustainable development objectives *to help sustain the agricultural enterprise*, and are consistent in their scale with their rural location ...' (ODPM 2004: 16, emphasis added)

In other words, diversification seems to be primarily about keeping farmers on the farms, and maintaining a farming future for them. Less clear is why public support should be oriented to helping keep farmers in farming, which might be thought of as a lifestyle choice. For example, a farmer who stops farming and converts farm buildings for wholly non-agricultural business purposes could, and should, be a perfectly legitimate form of rural economic development.

The need to develop non-agricultural activities

Farm diversification tends to be justified in terms of rural development benefits. However, benefits might be greater with a move away from a sentimental concern about sustaining farmers in farming. Wider development of non-agricultural rural economic activities are likely to bring benefits to farming families, not least through the opportunities for additional sources of income. Pan-European surveys have long been suggesting that multiple income sources are a widespread feature of British and European agriculture (see Commission of the European Communities [CEC] 1992), with at least half of farm households no longer exclusively dependent upon agricultural production for their incomes (CEC 1992). Income sources from off the farm are of much greater significance than non-agricultural income generated on the farm (through conventional farm enterprise diversification activities).

The implication is that to diversify farm household incomes, the most appropriate strategy is to stimulate diversification and economic growth in wider local rural economies, thus benefiting non-farmers and members of farming families. Farm households can manage even when income from farming is being squeezed, providing that the surrounding rural economy is buoyant and provides opportunities for alternative or additional income for farm household members. Following this line of argument, the most pressing problems lie with those localities where the local economy is too narrowly dependent upon agricultural production. Agricultural dependence is a rural economy problem. With the prosperity of farm families increasingly dependent on the wider local economic conditions, and with local rural economies, in turn, less and less dependent on the performance of an agricultural sector that is increasingly integrated into global markets, the focus of intervention to promote rural development and employment should be the rural and regional economy, and not the agricultural sector.

Increasing government interest in diversification

In recent years, there has been increasing interest in the need to diversify rural economies. The Government's vision, set out in the 2000 Rural White Paper, talked of 'a working countryside, with a diverse economy giving high and stable levels of employment' (DETR/MAFF: 6). Diversity is often seen as an end in itself and certainly warrants some careful consideration. From an agricultural perspective, diversification may imply a shift away from agricultural dependence into some other form of activity. However, if large numbers of farmers diversify into, say, similar types of tourism enterprises, then local economies may remain highly dependent on a narrow range of sectors – farming and tourism rather than just farming. In some cases, of course, specialisation in local rural economies may enable localities to develop highly distinctive and specialist economic development strategies centred on local clusters or resources, for example, the second-hand books cluster around Hay-on-Wye, or the bird-watching economy on the north Norfolk coast.

Rural-urban interdependencies

It is not helpful to treat rural economies as distinct from urban and broader regional trends and processes. The economic conditions and prospects for local rural areas in the UK are highly dependent upon their geographical relationships with the major urban centres. Recently, there has been increasing interest in rural-urban interdependencies in the English regions and elsewhere in the UK. This is, in part, because of socio-economic and policy trends, including 'counter-urbanisation' and commuting, as well as policy agendas around regional governance and sustainable development. The average Briton travelled about 8km a day in 1950. This rose to about 40km a day in the late 1990s and is forecast to rise to about 100km by 2025 (Adams 2000). Mobility and interconnectedness are features of the modern age, and challenge old notions of 'rural' and 'urban' as being distinct and separate spheres.

This recognition of the importance of rural-urban dependencies to rural development has not been confined to the UK. Several European studies have explored the nature of rural-urban relationships and the contribution of rural areas to the development of regions. Recent research by Michael Porter has also highlighted the importance of rural-urban links in the competitive performance of rural areas in the US (Porter *et al* 2004).

Links and interdependencies between rural and urban areas take many different forms. They include flows and exchanges of material goods and labour, of knowledge and information, and of ideas and cultural practices. However, the ways that interdependencies between urban and rural localities are understood and conceptualised are relatively under-developed in social science and policymaking. Innovative work in urban studies is rethinking the relationships between cities in a globalising world, but so far understandings of rural-urban links have lagged behind.

The significance of in-migration

Research at the Centre for Rural Economy examined the nature of rural-urban relationships in the north east region in the context of increasing interest in the city regions concept developed through the Northern Way (Midgley *et al* 2005). It worked from the starting point that increased mobility and interconnectedness is not necessarily beneficial or detrimental. The work identified how interdependencies are increasing as commuting patterns extend further from larger urban centres, and how local rural service centres and market towns can attract new in-migrants to regions that have otherwise been suffering from population decline (such as Scotland and the north of England). Indeed, it has been this distinctive role of rural areas as attractors of entrepreneurial in-migrants that has prompted most interest in debates about the contribution of rural areas to regional and city-region competitiveness.

Traditionally, research into rural in-migration has tended to cast in-migration in a negative light, focusing heavily on the social and community changes that newcomers are argued to bring. It is only recently that the significance of in-migration to local rural areas has been more positively represented as a driver of economic development (see Stockdale 2005: 119–133, Stockdale and Findlay 2004, Bosworth 2006, Kalantaridis and Bika 2006). For example, a survey of rural households in five English districts (Stockdale and Findlay 2004) found that for each self-employed in-migrant, an average of 2.4 full time jobs was created. Furthermore, some 85 per cent of in-migrant business owners worked within their local district, thereby concentrating their economic impact on the immediate area.

Recent re-analysis of a sample of 2,000 north east rural micro-businesses estimates that an average of 2.8

additional jobs have been created by each in-migrant business surveyed in 2000 (Bosworth 2006). It is estimated that a total of 7,600 people are employed full-time in rural micro-businesses owned by in-migrants. This is 8.3 per cent of the total number of jobs in the rural areas of the north east region. By comparison, agriculture and fishing provide some 3,398 full-time jobs or 3.7 per cent of the total.

Viewing in-migration to rural areas as a positive driver of economic development raises a host of new research issues. These include questions around: the relative growth performance of in-migrant businesses versus local businesses; the relative geographical scope of business and social networks of in-migrant and endogenous businesses; the age profile of in-migrant entrepreneurs; and the marketing strategies of development agencies interested in attracting incoming entrepreneurs.

Conclusions

Rural and regional economies are experiencing profound changes that render as outdated the concept of 'the rural economy' as a unitary and sectorally distinctive entity. Essentialist approaches to rural economies – which see it as possible to specify a finite set of characteristics that define an entity – can be either conservative or progressive. Conservative approaches look to the past and emphasise the importance of land-based industries to the constitution of rural economies. They sometimes refer to farming as the 'mainstay' or 'backbone' of rural economies. Progressive approaches, on the other hand, are more likely to accept that any type of economic activity can be located in rural areas and that no one sort of economic activity can be said to be more characteristically 'rural economy' than any other.

The limits of sectoral approaches

Sectoral approaches deliver only limited benefits for wider rural economies and communities compared to horizontal (territorial) approaches, and this is increasingly recognised across OECD countries. Given this, two recent trends give cause for concern in the UK. First, within farming, food and rural affairs policy, there has been an increasing emphasis since 2001 on the farming and food supply chains, embodied in the Curry Commission and Haskins Delivery Reviews (Policy Commission on the Future of Food and Farming 2002, Haskins 2003), with insufficient strategic prominence and resources given to the rural affairs objectives and functions of Defra and the comparable departments in the Devolved Administrations. Second, while sub-national spatial development policy is rapidly evolving, in many parts of the UK this is being driven by an old-style core-periphery model that is concentrating effort, and prioritising resources, within highly urban-centric strategies and programmes. The rise of city regions in regional economic development and spatial planning will pose major challenges for those involved in rural economic development, especially if a strategic approach to regional rural development is not developed as a counterpart.

Strengthening territorial approaches

More optimistically, a renewed interest in the roles of rural market towns, both in the development of rural areas and also in contributing to the growth of regions and city regions, opens up new opportunities to strengthen more territorial approaches to rural economic development. Furthermore, it is clear that national planning policy guidance continues to retain scope for enabling more imaginative local planning officers and authorities to pursue more developmental approaches to local rural areas and economies. This would be in accordance with the Government's priorities, reflected in its review of land-use planning policies under Kate Barker, announced as part of the 2005 *Pre-Budget Report* (ODPM 2006).

Analysing productivity

Paul Krugman famously said, 'productivity isn't everything, but in the long run it is almost everything' (Krugman 1990: 9). Yet productivity has only begun to be systematically analysed in relation to rural development in the past few years. The introduction of Defra's PSA target for Rural Economic Performance may pose technical challenges in terms of data collection and analysis, and the selection of appropriate indicators, but its very existence has proved a very useful stimulus to policy analysis and debates about rural economies and rural development.

The difficulties associated with the operation of the target should be no excuse for its withdrawal, for it serves a useful purpose in framing a policy problem and generating analysis within government that breaks new ground. It raises the profile of the economic dimensions to rural affairs policy, which otherwise

risk being swamped by the concerns of countryside preservationism and perpetual institutional change. The rationale for choosing earnings as a surrogate for productivity should be more openly debated and discussed, especially in the light of calls for raising Gross Household Disposable Income to become the core objective of the Government's work in rural England (Countryside Agency 2003).

Reviewing farm diversification

Farm diversification has become a commonplace and unquestioned component of rural development, and public funds are available to support farmers in diversifying their enterprises in order to maintain viable businesses. The implicit assumption is that it is a good thing to help farmers stay in business and warrants public support. Most farm diversification is strongly farming-related and it is open to question whether other forms of rural business support would represent better value for public money and generate greater rural development benefits (such as creating jobs). The re-use of farm buildings by new businesses wholly unconnected to farming may generate more jobs, improve productivity and offer wider local economic benefits than piecemeal diversification schemes that are motivated by a desire to help keep farmers on their land.

The rationale for support for farm diversification within rural development strategies and action plans warrants a fundamental review. Similarly, the specific beneficial attributes of 'diverse rural economies' also require further analysis. For example, where there has been a significant shift from employment in primary industries to employment in rural manufacturing firms, how vulnerable are these local economies to current and future processes of globalisation, and the increasing competitiveness of low wage economies in Asia and Eastern Europe?

Rural-urban interdependencies

Rural-urban interdependencies are increasingly being recognised as important in understanding the functioning of local rural economies and in highlighting the contribution of rural areas to wider regional growth. Of particular interest is the role of in-migrant entrepreneurs who either bring new businesses to rural areas or establish them there. 'Incomers' have been traditionally cast as disruptive of the rural way of life, although in-migration is gradually being viewed as a positive force for economic development, which can bring wider benefits. Seeing in-migration from this perspective raises a host of new research questions about the nature and effects of what we might call entrepreneurial rural in-migration.

Placing rural economies at the heart of rural development

It has been argued that rural development is 'a term that needs more careful usage and interpretation by all who employ it' (Thomson 2001: 9). Rural development, Thomson argues, should not be used to imply simply the normal operation of the rural economy, 'but reserved for its structural and behavioural *change*' (Thomson 2001: 9), with rural development policy orientated to the active promotion of such change.

This paper makes a case for placing rural economies at the heart of rural development, and thus of rural development policy. There are economic, as well as social and environmental, benefits to be derived from the structural processes of change underway in rural economies, as well as some difficulties to be overcome. Structural and behavioural changes are best delivered through approaches to rural economies that are developmental and permissive. Tackling low-wage/low-productivity equilibria, improving rural business performance, and raising rural household incomes all require developmental approaches to local rural economies. Economic development interventions need to be forward-looking and are likely to involve mixing the small-scale with the strategic, the territorial with the sectoral, and the local with the non-local.

Rural economic development should also be more permissive in acknowledging that rural areas can be attractive and successful locations for all sorts of businesses, and this is something to be welcomed and encouraged. Of course, rural economic development should not undermine the very assets upon which rural areas' competitive advantage often depends (such as attractive landscapes, human and social capital) and there will always be a need to see farming and land management as integral components of local economies in rural areas. However, an overdependence on agriculture is a weakness for those rural areas where land-based industries contribute significant proportions of jobs, and is not a justification for the continuance of farm-centric rural development.

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