

Rural areas as engines of economic growth

The contribution and potential of rural businesses and communities has often been overlooked in the policymaking process. Could more be done to encourage their growth?



Policy and Practice Notes

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Rural areas contribute at least £211 billion a year directly to the English economy but have great potential to achieve even more. During the decade to 2010 our countryside and smallest settlements achieved higher rates of growth in numbers of businesses and jobs than any other settlement category in England. Cuts in public spending and the need to rebalance the economy means that our expectations of what private and social enterprise can achieve in employment, wealth creation and service provision have increased. We must, therefore, see growth across the whole country rather than only in certain cities or sectors. The distinctive characteristics, business and employment structure and past performance of rural economies mean that they are well placed to meet this challenge

What is 'the rural economy'?

Land management industries are important to us all – we depend on their provision of food, timber, water, energy and other goods – but the rural economy reaches far beyond this in terms of jobs, enterprises and output.

The rural economy can contribute to all the economic sectors, and is affected by all of the pressing challenges (infrastructure, planning, finance etc) that feature in national and local growth strategies, yet its contribution is often handled separately and focused on farming or tourism:

- Manufacturing, wholesale and retail, construction, education and health, public administration and professional and business services sectors flourish in the countryside and many leading global, European and national businesses operate from rural areas.
- Land management provides a wide range of ecosystems services, including not only production of food, timber and energy, but also provision of clean water, leisure facilities, carbon storage and flood management.
- Rural areas display high levels of entrepreneurship, with more businesses per head of population than in England's towns and cities.
- Most city economies are well supported by commuters, businesses, consumer and environmental services from neighbouring rural areas.

Just as firms vary across towns and cities, so the mix of business sizes, sectors and performance varies across rural areas:

- Manufacturing and professional firms are more likely to be found in and close to rural towns in less sparse areas.
- Micro-businesses, social enterprises and self-employment make a more significant contribution to rural employment and services than those in urban areas.
- The high levels of entrepreneurship are partly driven by large numbers of home-based businesses, (especially those run by women), by self-employment and by incomers.

Why are rural economies important?

Cuts in public spending and the need to rebalance the economy reinforce the need for economic growth and innovation to come from all areas and sectors, not just from urban centres.

Rural businesses already make a significant contribution to economic growth:

- They currently represent around 28% of England's firms.
- Rural areas contribute at least 19% of Gross Value Added to the English economy.
- Healthy environments are known to make critical contributions to economic growth and society's wellbeing. Stewardship of the rural environment is central to achieving this balance between economic growth and environmental and societal wellbeing.
- Rural economies have demonstrated their potential to provide more growth and employment if given appropriate stimuli and support from national and local business leaders and policy makers.

How does the rural economy offer opportunities for growth?

Rural areas have a number of dynamic features that enable economic growth:

- Rural areas have more business start-ups per head of population than many urban areas.
- Firms started by people moving into rural areas are more likely to sell their products and services on national and overseas markets, thus earning revenue beyond the locality.
- Many manufacturing businesses are located in rural areas and this sector provides a higher proportion of rural jobs than are supported by urban manufacturing firms.
- Rural economies have pioneered privatisation and community provision of many local services, fuelled by a combination of delivery and access difficulties and the distinctive nature of rural demand.
- As the economic value and potential of ecosystems services are recognised these will offer increased opportunities for growth.

What barriers are holding rural economies back?

There are also some key weaknesses to be found in rural economies:

- Low densities and dominance of very small firms, especially in sparse and peripheral rural areas, can lead to a poorer choice of local employment opportunities for rural residents.
- Lower business revenue and lower productivity in some sectors leads to many rural jobs offering lower pay.
- Affordable housing for employees is limited in many areas. When combined with poorer public transport, greater distances between firms, this presents employers with difficulties recruiting or retaining staff, and adds to higher average living costs than for workers who are residents in towns.
- Fuel costs are high for firms and for employees who need to commute.
- Lower levels of local authority funding are available for spending on consumer services and economic support.

Rural businesses are as likely to want to grow as their urban counterparts. But many types of rural businesses report practical restraints on their development, principally relating to:

- Accessing and managing finance, exacerbated by closure of rural branches of high street banks.
- Regulation and planning requirements, sometimes made worse by planners' and residents' views of what are appropriate forms of businesses for rural areas.
- Infrastructure provision and premises, particularly for firms wishing to expand.
- Access to services, markets, networks and communications infrastructure, including mobile coverage and broadband, that most urban firms and residents take for granted.
- Recruitment of suitably skilled staff.

What changes are required if rural economies are to fulfil their potential?

All rural businesses must innovate and develop in order to be viable and need support and encouragement to do this:

- The diversity of growth challenges in rural industries must be addressed in a targeted way. For example, agriculture has some of the lowest growth aspirations and is constrained by an aging workforce, while manufacturing has the highest growth aspirations but is challenged by inadequate sites and premises.
- Two thirds of rural firms are micro-businesses, employing fewer than 10 employees, and these need particular attention as they often fall below the radar in any investigation of the rural economy:
 - They are more important for employment in rural than urban areas.
 - They have limited in-house resources.
 - Their goals and motivations are very diverse.
 - They are often family-based.
 - Many are reluctant or unable to take on new staff.
 - Many are home-based. These are often the most profitable firms, but many say they need better access to business advice and grants, improved IT and opportunities for business collaboration.
- Workhubs offering flexible work premises would be helpful, providing access to shared facilities and reducing isolation.
- Business associations and networks could be more proactive in engaging these small businesses and providing mentoring and other support.
- Business leaders – from the private as well as the public sector – seeking out and speaking out for the experience of rural businesses would help to ensure that core business and innovation policies are sensitive to rural needs.

What are the messages for decision makers at local and national level?

Effective and transparent rural proofing of growth plans and policies across all business sectors is needed in order to tailor measures to rural conditions and assess their applicability to rural economies:

- Rural growth measures have been more fully developed for the land-dependent sectors of farming, forestry, food and environmental services. Whilst these are important for the nation, in many rural areas we need to look to other sectors that are the primary engines for growth.
- Rural economies should be treated as cross-cutting and embedded in mainstream policies and plans for economic development.
- At a national aggregate level it is easy to overlook important differences in urban and rural businesses and labour markets; a closer examination at a finer scale reveals important variations in spatial, sectoral and size profiles.

- There is a need to further demonstrate ways that firms can realise the value of the natural environment to business growth, by securing efficiencies and developing new products and services.
- A tailored, place-based approach is required, meeting local constraints and opportunities. Strategies for growth must respond to local variability and drive resources to rural economies at local level.
- A review of the needs and opportunities for rural and home-based micro-enterprises would complement the review of mid-sized firms within the Government's Plan for Growth.
- Rural households and communities form the bedrock of our rural firms, and bolster their innovative capability and resilience. This is particularly apparent in times of economic pressure. Strengthening local business and community institutions and facilitating community engagement will pay dividends.
- Investment in affordable housing and local services is essential for employee recruitment and new business development.

Further information

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Useful resources:

Commission for Rural Communities (2011) State of the countryside update: Market towns <http://tinyurl.com/d2edkx9>

Defra (2013) Statistical Digest of Rural England 2013 <http://www.defra.gov.uk/publications/2013/01/31/pb13821-stats-digest-rural-england/>

Defra (2010) Economic Growth and the Environment <http://www.defra.gov.uk/publications/files/pb13390-economic-growth-100305.pdf>

Atterton, J. and Affleck, A. (2010) Rural Businesses in the North East of England: Final Survey Results. Centre for Rural Economy Research Report <http://www.ncl.ac.uk/cre/publish/researchreports/RBSReportFINAL.pdf>

Phillipson J et al. (2011) Rural Economies: Incubators and Catalysts for Sustainable Growth. Submission to Government's Growth Review – Stage 2, Centre for Rural Economy and Relu. <http://www.relu.ac.uk/news/Consultations/Growth%20Review.pdf>

OECD Rural Policy Reviews: England, United Kingdom 2011 http://www.oecd.org/gov/regional-policy/oecd-rural-policy-reviews-england-united-kingdom.htm#Key_facts

