A Brief History of Maine Rural Development Policy*

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The Not-Too-Distant Past: An Absence of Policy. In his landmark study of Maine's 19th century economic development policy, historian Edward W. (Ted) Potter concludes that:

"Maine pursued essentially a laissez-faire economic development policy throughout the period…. Maine's business leaders provided the state's political leadership; (and) as long as the state's businessmen equated their own prosperity with the state's welfare, (it) was unable to generate any unity of purpose in regard to a positive, state-backed development policy….

"The pattern of development based on self-interest was strengthened by the fact that Maine's commercial regions were geographically isolated from each other. Not only was Maine divided between east and west, it was also divided between the coastal and interior sections, and between the competing economic regions centering on Portland, Bangor, and the Kennebec towns….

The geographic isolation of the commercial regions and towns and the state's geographically limited markets (mostly Massachusetts and New York)

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contributed to the lack of awareness by Maine's leading businessmen of national and international economic developments….

"(Meanwhile,) states such as Massachusetts, New York, Pennsylvania, and Ohio provided large quantities of social overhead capital that not only generated considerable economic growth in itself, but also left the private sector free to invest in other areas of development (as) trade, manufacturing, land and urban development….

"The preoccupation of Maine's business leaders with the lumber industry and privately-financed internal improvements not only reduced long-term economic opportunity for them and all Maine people, it also left them blind to new economic opportunities that could have enabled Maine to adjust to changes in the economic and technological environment. The absence of active state government support for economic development, and the limited supply of an innovative, risk-assuming, cosmopolitan, entrepreneurial class had serious consequences for Maine's growth in the 19th century and beyond."[i]

That historic change is underway today in the Maine economy is no longer secret to anyone. That this change has its most severe effects in rural Maine is apparent to anyone who lives in, works in, or visits rural Maine today. The state's traditional natural resource-based and manufacturing industries have for some time been in long-term decline and transition. While the changes are similar to those in other rural regions of New England and the United States, they represent a more formidable challenge in Maine because Maine's well-being has long been rooted in a largely rural-industrial economy. As Maine makes the shift to a more urban post-industrial economy, the question of what will become of the regions at the historic heart of the state's economy and self-image becomes more urgent.

In this chapter we review the forces that have shaped the Maine economy in general and the rural economy in particular over the past thirty-five years. We then provide a brief review of the major themes that have characterized Maine government's response to these forces.

Competition-driven Economic and Demographic Change Maine has always been a place where natural resources matter. Land, water, trees, and fish stocks are the firmament on which Maine was founded and grew from the earliest days of European settlement through the large-scale industrialization of the late 19th and 20th centuries. To understand how important the rural Maine economy was at the end of this era, consider what Maine looked like in 1969, when the Maine economy was about half the size it is today. Then,

- Nearly one job in three in the Maine economy was in manufacturing, almost 120,000 jobs.[ii]
- The natural resource industries – including farming, forest products, and food products – together employed nearly 63,000 people, or 16% of all the jobs in Maine.
- The textile, shoe, and apparel industries employed 44,000 people, almost 9% of all Maine jobs.
- Together the natural resource and textiles-apparel-shoe industries employed more than one Maine worker in every four.

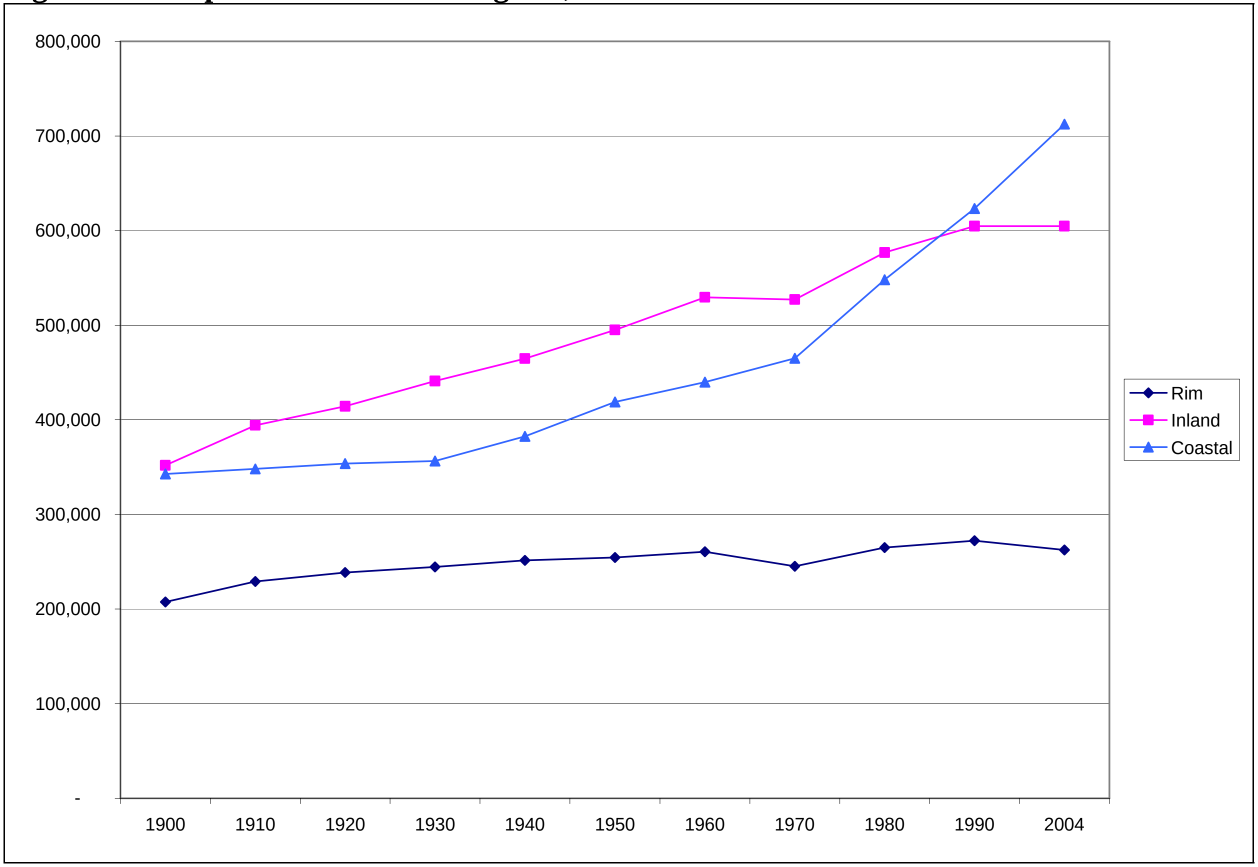
Now, fast-forward a generation to 2004 and a Maine economy that has nearly doubled in size:

- Just one job in 10 is in manufacturing, which has shrunk in employment by nearly half.
- The natural resource industries (excluding tourism) employ 35,000 people, less than 6% of Maine employment.
- Textiles, apparel, and shoes are down to 6,000 jobs, a decline of nearly 90%.
- Together, these rural industries provide jobs for about 1 of every 19 persons employed in Maine.

All these industries have been located primarily in rural Maine. The natural resource industries of farming, food, and forest products are obviously all tied to the rural areas; but this was also true of the textile, apparel, and shoe industries, the manufacturing plants for which were located mostly in small towns like Dexter, Wilton, Norridgewock, and Fort Kent.

Another perspective on the changes in Maine is shown in Figure 2.1, which tracks population in the inland v. the coastal counties over the 20th century. "Coastal" refers to the counties from York to Washington, while inland refers to all other counties. The "rim" counties include Oxford, Franklin, Somerset, Piscataquis, Aroostook, and Washington

Figure 2.1: Population in Maine Regions, 1900-2004



In 1900, the total population was about evenly split between inland and coastal counties (51% v. 49%), while the rim counties made up 30% of the population. The inland and rim counties peaked in their shares of Maine's population in 1930 at 55% and 31% respectively. By 2004, the rim counties were down to 20% of Maine's population, while the inland counties had 46% and coastal counties had 72% of the population. The rim counties grew by only 55,000 people over the entire century (1900 to 2004), while the inland counties grew by 253,000 or 72%, and the coastal counties more than doubled their population.

While the rim counties have been the slowest growing, the pattern of growth in the inland and coastal counties has undergone a major change. The growth in the coastal counties began to pick up substantially in the 1970's and has stayed strong since. The 1960's actually saw a slight decline (of about 15,000) in the population of the inland counties, followed by steady but much slower growth. Since 1970, the coastal counties have increased their population by more than half (53%), while the inland counties have grown by 15% and the rim counties, by just 7%. This is the same period in which the economic changes discussed above were occurring.

Figure 2.1 also reflects that the economic difficulties confronting rural Maine are not solely the product of the last thirty-five years. The rim counties barely increased their population throughout the 20th Century. Over more than a century, these six counties added less than the current population of Portland. So, *the origins of the economic troubles of rural Maine lie much farther back in the past, and may be briefly summed up in one word: competition, and its effects.*

The Effects of Competition Explained. The loss of manufacturing jobs in Maine is often considered a recent phenomenon; but it began in the 1920s when it primarily affected the textile and apparel industries. The competitive pressure came from the southern United States, to which these industries began to move in large numbers in the aftermath of World War I. This period saw the beginnings of state economic development policy and subsidies to lure manufacturing plants from the North to the South; and while these had some effect, the overwhelming reason for the shift to the South was that the mechanization of cotton harvesting created a huge, unorganized, and surplus workforce.

Just as Maine's mills had used the surplus workforce in Quebec in the late 19th century to spur their own growth, southern textile mills now had access to substantially cheaper labor. The competitive pressures resumed after the Great Depression and World War II, and by the 1950s Maine was losing textile, apparel, and shoe jobs at a steady pace. Maine's very first formal state economic development effort would come in response to this competitive pressure. (See below)

Competitive pressures increased substantially after 1971, when the dollar was decoupled from the Breton Woods quasi-gold standard, and *international* competition increased significantly. Developing nations found, just as Maine and New England had found more than a century earlier, that their early comparative advantage was in the textile, apparel, and shoe industries; and from the 1970s to the present, international competition has drained away not only Maine's jobs in textiles, apparel, and shoes, but also those that had migrated south from New England decades earlier. More recently, Maine has lost competitiveness in secondary wood products to Eastern European and Asian nations, most especially China.

Throughout the 1970s and 1980s, as labor costs intensified competitive pressures on the textile, apparel, and shoe industries, Maine's paper industry remained strong. Scott Paper made a multi-billion investment in the last entirely new paper mill in Maine (at Hinckley in Skowhegan), and all the other Maine mills substantially expanded capacity. While rising labor productivity from these investments resulted in a steady loss of jobs, output increased to the point where in the late 1990s a smaller workforce was producing twice the amount of paper as twenty years earlier.

Over the past decade, however, increasing globalization of the paper industry and huge increases in pulp and paper production in places like Brazil, Finland, and China have made papermaking in Maine a business only for the most efficient, best-run mills. For the first time since modern papermaking began in Maine more than a century ago, mills and paper machines are being permanently shut down and paper output, along with jobs, is declining.

In the 1980s the lumber industry faced increasing competition from Canadian mills, particularly those built along the northwest border of Maine to use salvaged wood left by the spruce-budworm infestation of the 1960s and 70s. Still, until the last decade the forest products industries in Maine remained healthy and competitively successful.

The result was widespread "downward mobility" for thousands of laid-off manufacturing workers, and the special problems of limited occupational and geographic mobility among middle-aged workers who had spent their whole working lives in one town and one factory. These remain core features of rim county under-development.

Competition affected agriculture similarly. The potato industry, and the population of Aroostook County, peaked in the early 1960s. About that time, western states including Idaho, Oregon, and Washington began to make substantial inroads in national potato markets. The expansion of potato production in these states was enabled primarily by federal investments in water projects and irrigation begun in the 1930s and accelerated in the 1950s and 1960s. Western states' farms not only grew potatoes on a much larger scale than did Maine farms, they were also quicker to catch onto changing consumer preferences. While Maine farmers stuck with the Irish round-white potato as their staple output, consumers were shifting demand in favor of the western-grown russet potatoes that were also more suitable to the exploding french-fry market in fast food restaurants.

Meanwhile, one of the most visible effects of rail-rate deregulation in 1979 was the loss of the chicken broiler industry in Maine, which had existed because it was possible to bring grain from the Midwest to Maine at very cheap, regulated rail rates. When rates were deregulated, the cost of bringing grain to Maine proved too great for the survival of the Maine industry, and production again shifted south, nearer the rail centers of Baltimore and Norfolk. Transportation deregulation along with great improvements in shipping technology, refrigeration, and containerization opened American markets to fruits and vegetables from all over the world.

Competition of a different sort severely affected the fishing industry. In the 1960s East European and Soviet fishing vessels arrived off New England shores in large factory trawlers and increased dramatically the catch of ground fish through more efficient catch methods and onboard freezing-processing. Concerned by their affect on American fisheries and the American fishing industry, Congress enacted the Magnuson Fisheries Conservation and Management Act in 1976. The act extended U.S. jurisdiction with respect to fisheries conservation to 200 miles from shore, and created process to manage the offshore fisheries to prevent overfishing.

The new fisheries management process began to take effect in the late 1970s and has remained in place since. What followed from it, however, was not a stable fishery but a drastic reduction in groundfish stocks off New England in the 1990s, resulting in a major decline in the size and economic health of the fishing industry in Maine and the rest of the region. The reasons for the decline, exactly the opposite of what was hoped, remain controversial; but the effects are clear – too much competition by too many fishing vessels for a smaller and smaller population of fish. Of Maine's historic fisheries, only the lobster industry has to now managed to survive and prosper without significant decline.[iii]

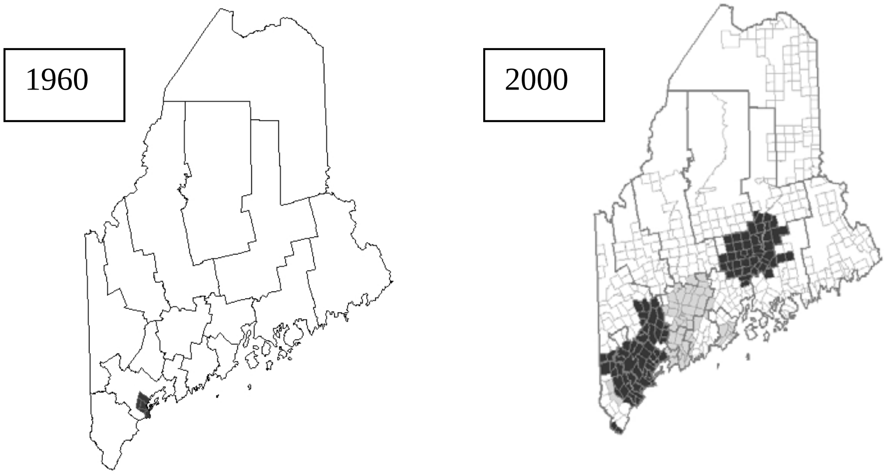
A New Economic Landscape. As this brief survey of Maine's key rural industries makes clear, *competition* has been the major issue for *all* of them; but the story often told about the effects of foreign competition is only partly true. Competitive pressures on these industries have existed for more than eight decades. They have come from abroad, but they have also come from elsewhere in the United States. They have been created in some cases by government action, in others by technological change, and in still others by labor surpluses in other parts of the world.

Not only has there been competition for these Maine industries from other regions, but now competition over *access* to the resources, themselves. In forested regions, the profound transformation of land ownership in the past decade raises long-term challenges for both the timber and forest products industries, and for tourism and outdoor recreation. Along the coast, soaring real estate demand and prices threaten the future of working waterfronts, not just in south coastal cities like Portland but increasingly in coastal Washington County.

While these competitive pressures have grown and made it ever more difficult for rural industries to survive, let alone thrive, another change has been underway that affects rural areas. Maine's urban regions have steadily expanded outward from the core service centers to more distant rural areas. This pattern of development has become known as "sprawl," but that term has acquired some pejorative connotations and it is better to speak here of the "spreading" of Maine's urban places.

The phenomenon is illustrated in Figure 2.2, which shows those communities designated by the U.S. Bureau of the Census as part of a metropolitan area in the years 1960 and 2000. In 1960 only five Maine communities, all around Portland, were considered part of a metropolitan region; neither Lewiston-Auburn nor Bangor then qualified. By the year 2000, Maine had *three* metropolitan regions of its own, and southern York County was part of the Portsmouth-Dover-Rochester metropolitan region.[iv] These regions are defined primarily by *commuting* patterns People live and work within these regions, with a significant number commuting from outlying areas to work in or near the center city.

Figure 2.2: Maine Metropolitan Areas, 1960 and 2000.



Source: U.S. Census Bureau

As Figure 2.2 shows, the expansion of urban Maine has come to encompass a significant portion of what was until recently considered rural Maine. It is true not only in the smaller communities of northwestern York, western Cumberland or northern Kennebec counties; it also includes southeastern Piscataquis and parts of northern Hancock County and eastern Oxford counties. Rim county communities within a reasonable commuting distance of the major urban centers of Portland, Bangor, Lewiston-Auburn and Augusta-Waterville are being affected by this trend, but most of the geography of the rim counties lies beyond easy commuting to these centers and thus has not been subject to the mixed blessings of this suburbanization.

It is true that many communities at the outer edges of the metropolitan areas still look and feel rural; but their economic role has fundamentally changed. Towns in Hancock, Piscataquis, Oxford, and northwestern York County now serve as “bedroom” communities for Bangor, Lewiston-Auburn, and Portland. They are more and more oriented to the cities where their residents work, and less to the industries that were once located within these towns. In the towns of “edge Maine”, economic life is divided between the traditional rural lifestyles and occupations, and an emerging, urban-oriented economy. The result is competing visions of what these towns should look like and become.[v]

In sum, the twin stories of rural Maine economics are about, first, the competitive pressures resulting in significant declines in the industries that powered the rural economy from the early 19th century through most of the 20th century; and, second, the spread of our urban regions into rural places, with the result that many areas are today caught between a rural past and a more urban/suburban future.

State Policy Responses to Rural Economic Distress. The profound changes in rural Maine in recent decades have not failed to attract the attention of policy makers in Augusta. Maine responded to the loss of jobs in the textile and apparel industries in 1957, under Governor Edmund S. Muskie, by establishing the Maine Guarantee Authority (MGA). Modeled on a Rhode Island program established the prior year, also in response to the loss of textile jobs, the MGA offered public guarantees of loans to private companies to increase their access to capital.

In the late1960s and early 70s Maine state government established the institutional framework for economic development policy and programs that persists to today. The Department of Economic Development was established under Governor Kenneth Curtis, and later recreated as the State Development Office when Governor James Longley decided that economic development was something for which the governor must take personal responsibility.

This was in the era of the “mega-projects”, or at least “mega projects planning” that were once expected to provide the foundation for a new industrial economy for rural, especially coastal Maine. Oil refineries were proposed for Machiasport, Searsport, and Eastport, and an aluminum smelter in Trenton, to take advantage of the natural deep water harbors of eastern Maine,. The Dickey-Lincoln dam on the St. John River and the Cobscook Bay Tidal Power project were championed by Senator Edmund S. Muskie and other members of the Maine congressional delegation as a means to address adverse energy costs and take advantage of the federal water resource projects that had once transformed the South and were now transforming the West. This approach to economic development was unique in that it envisioned changes in the rural Maine economy that are pretty much unthinkable today, but the changes were also specifically targeted to rural areas rather than being simply generally available throughout much of the state as most other economic development programs have been.

The era of the mega-projects gave way in the 1980s to what might be termed one of targeted mini-projects, in the administration of Governor Joseph Brennan. A series of much smaller projects was designed to provide assistance and infrastructure to the natural resource industries. The most important of these were the expansion of the mission and resource capacity of the MGA, now to be known as the Finance Authority of Maine (FAME); and the creation of the Portland Fish Pier and Portland Fish Exchange, in which the state, with substantial contributions from the federal government and the City of Portland, funded major renovation of a pier for the groundfish fleet and the first "display auction" for fresh fish on the East Coast.

Designed to give Maine a significant advantage within the groundfish industry, the Portland Fish Exchange literally revolutionized the market for wholesale fish, allowing fish processors and dealers to inspect the catch before purchase. Before the dramatic and tragic drop in fish-landings of the 1990s, the Exchange provided a key market for fishing firms throughout coastal Maine from York to Washington counties, and re-established Portland as a major center for the fish processing industry in New England, which also benefited the entire coastal region.

From York to Washington counties, improvements were made to piers and wharfs for the fishing industry. A series of sheds were financed for the cold storage of potatoes, enabling Aroostook County farmers to store potatoes until market conditions were optimal for their sale. The Department of Agriculture's mission was expanded significantly, following the work of the Food and Farmland Commission. Formerly the department's concerns had been milk marketing, harness racing, and pesticide control; now it took on farmland preservation and market development, and championed creation of the Farm and Open Space Tax Law to complement the forest products industry's Tree Growth Tax Law.

A “three cargo port” strategy was envisioned that would develop major, new cargo ports on Sears Island and in Eastport to add to Portland and primarily to benefit the forest products industry by making exports less costly. In the event, only Eastport saw creation of a new port facility. Sears Island was opposed by environmental and other interests, and turned down for development by environmental agencies; upgrades were then made to existing cargo facilities at Mack Point in Searsport. The Eastport port has proven itself a useful, if small scale support for forest products exports, while the upgrades to Mack Point have facilitated an increase in shipments there, as well. The controversy surrounding development v. preservation of Sears Island continues to this day.

In the late 1980s and early 1990s, the Administration of Governor John McKernan shifted focus away from infrastructure investment for improved competitiveness to a targeted lowering of costs for firms in specific, remote locations. Adapted from “enterprise zone” programs long employed in other states, the McKernan Administration proposed that firms newly locating in areas such as Millinocket and Eastport be eligible for special, reduced taxes. In 2003 Governor John Baldacci would renew and expand upon this theme with his Pine Tree Zone program

Figure 2.2

that would quickly come to cover virtually the entire populated portions of the state. (Figure 2.2)

Business tax reductions were likewise a theme in Governor Angus King, Jr.'s administration in the 1990s. Expanded programs such as tax increment financing (or TIFs) allowed property taxes to be used for the direct benefit of the company making the payments; and employment tax increment financing (or ETIFs) rebated a portion of the income tax paid by employees in a qualifying firm. Perhaps most important at this time was the 1996 Business Equipment Tax Reimbursement Program that effectively exempted from the local property tax any business equipment put in place after April 1 of that year.

Major investments in Route 9 from Bangor to Baileyville ("the Airline") were made in the 1990s, and citizen groups in northern and eastern Maine pushed vigorously for an East-West Highway, reviving an idea that was first broached in a 1937 economic development plan for the state prepared under the auspices of the federal Works Progress Administration (WPA). Governor King rejected the idea of building a full, divided highway but did commit to making major investments to speed traffic flows across the state. Citizen groups in Aroostook County pushed for an extension of I-95 northward, and a multi-year study process was instituted to determine the environmental and economic feasibility of the project.

A third major theme to emerge in the 1990s was the public role in technology innovation, research, and development. New funding was provided for research facilities in the University of Maine System, and new grant and tax credit programs were established to support private research and development. These efforts to stimulate innovation were directed at such cutting edge industries as biotechnology and information technology, but the legislature made sure that firms in forest products, agriculture, and marine industries would be eligible, as well, on the grounds that they, too, required technological innovation to remain competitive.

A number of other, discrete actions by state government over the past 30 years have had profound effects on the rural economy, though they did not receive a great deal of attention at the time. One was a series of policy changes towards the telephone industry in the wake of the 1984 breakup of AT&T that encouraged investment in Maine by the newly-formed "Baby Bells".

These changes allowed Maine to develop advanced digital telecommunications infrastructure that, in the late 1980s, became a key foundation for the teleservices industry in the state, beginning with call centers for the credit card company MBNA. The removal of statutory interest rate ceilings was likewise crucial to the expansion of the credit card industry. As a result, the teleservices industry became one of the most important replacements for the vanishing apparel, shoe, textile, and chicken broiler industries, often moving into the same buildings vacated by a closing factory.

Piecemeal Policies Absent a Stable Development Strategy. This brief overview of rural economic development policies in Maine reveals several important themes. First, the natural resource industries – perhaps especially pulp and paper because of its scale and magnified impacts across the state – have received careful and continuing attention in recent decades from Maine policy makers. This is not surprising, as these are the most visible industries in Maine, and the economic activities most closely associated with Maine people's imagination of the state and its economy.

In contrast, relatively little attention was paid previously to the textile, apparel, and shoe industries as they declined, other than to provide job training and income support for workers as jobs disappeared. This is in part because the waves of decline in the mid-1970s and early-1980s recessions were so swift that there was little time to react. A series of technical institutes had been created in the late 1960s with a focus on training and re-training industrial workers; but it would be another four decades before Governor John Baldacci would lead the creation of a true Community College System for Maine people, to ease the transition to higher education for individuals who most often were the first persons in their families to go beyond high school.

The policy failure in this instance also reflected that the workers involved were largely outside the mainstream of Maine politics at the time; and, as well, a sense that these traditional industries were simply not going to be sustained in the future because Maine could never again compete solely on the basis of low cost labor. In contrast, the lands, forests, and sea remained a source of raw materials that, it was believed, would still sustain major economic activity if means were found to increase the competitiveness of Maine firms.

Second, a broad array of policy tools to promote economic development has been employed in Maine over time; and virtually none of the programs developed over the past fifty years has been eliminated. As a result, Maine will today guarantee a company's debt; in many instances charge little or no corporate income tax or property taxes on equipment; rebate income taxes paid by employees for extended periods; support with grants or tax credits a company's research and development; and even train the firm's employees. Public infrastructure investments may be available to assist with transportation of goods or for other purposes, in a veritable grab-bag of variously funded and seldom-if-ever evaluated programs.[vi]

In this regard, Maine is programmatically similar to virtually every other state in the nation. The details of programs may differ somewhat in terms of eligibility, duration, and amount; but *there has been no important program innovation in economic development policy in the United States over the past fifty years that has not been adopted and tried in one way or another here in Maine*.

Whatever the difficulties facing rural Maine, it is not because federal, state, and local policymakers have not tried to improve conditions. Perhaps the programs have come on line late, or have not been as generous as they might have been, or did not exactly match those of other states; but the pressures of technological change, global competition, maturity of products, and structural changes in the economy have proven more powerful in shaping rural Maine than anything that state or local government has done in response.

At the same time, it is not unfair to characterize the State of Maine's economic development efforts in this regard as:

- A decades-long string of sector-specific initiatives, often from a reactive posture or in a crisis management mode.
- Piecemeal program initiatives in areas such as transportation infrastructure, targeted tax breaks, access to finance, post-secondary education and job training, telecommunications, etc.
- A frequent, compelling focus on attracting and retaining *big* corporate investors to the neglect of the many small firms and *their* interests.

- A statewide focus in policies and programs that occasionally pays off for rural areas, but which does so more by chance than design.

It is clear that *there has been nothing resembling a consistent, comprehensive rural development strategy that integrates the many program fragments; that transcends political parties, gubernatorial administrations, and legislative sessions; and that makes the whole more than the sum of its separate parts.* In this context, it may be useful to ask what appears to have worked and what has not for the rim counties, perhaps to reverse what one observer has termed "a slow, steady decline" that, in the absence of crisis, breeds policymakers' inattention and inaction.

What Works and What Doesn't? What may we learn from the experience of Maine's fifty-year policy effort (as well as the preceding century and a quarter of policy neglect) that is relevant to the rim counties' development in the post-industrial economy? What new or added policies might change the economic outcome in the rim counties? Is 19th century policy of laissez-faire or benign neglect the answer? And if not, what is?

First, what *hasn't* worked?

- To be fair, Maine's lack of a consistent coordinated approach to rural development mirrors that of the federal government. The absence for a quarter century of clear and aggressive federal policy in the area of rural development. Nothing better illustrates the critical difference that high federal policy attention can make in these matters than the dramatic and visible reductions in rim county poverty, especially among the elderly, that were achieved by the Johnson Administration's "War on Poverty."

- The absence for some 40 years of a Maine Community College System that will ease the transition to higher education for displaced workers and their families, even while other states and nations with which we compete and easily identify (as North Carolina and Ireland) moved aggressively in this regard.

- Moral judgment in the face of economic comparative advantage. The moralistic rejection of casino gambling and the near-hysterical response to LNG terminal facilities deprived the rim counties of the opportunity to carefully analyze and consider the substantial economic benefits from various configurations of these possibilities, and transferred them elsewhere. For example, a number of small casino/resorts might have been considered in appropriate, strategic tourism destinations around the rim counties, as opposed to the single, large casino proposed and rejected in the last year of Governor King's term. These rejections have frequently been accompanied by high-level promises to deliver alternative, "appropriate" development that never appeared

- Treating one of the few major development activities in rural service centers as a zero sum game. The growth of large national chain retailers in rural communities (the so called "big boxes" has been one of the few areas of dynamism in much of Maine, But this development has been seen as a challenge to the existing business establishment and to the "character" of communities which should be vigorously resisted. While the "big boxes" do pose real challenges for communities, treating them as an enemy to be repelled rather than finding ways to creatively use the opportunities they present to strengthen a communities role as a retail and service center has resulted in the worst outcomes: poorly sited facilities which do not integrate with a communities other assets (exactly what opponents fear will happen) or the complete rejection of one of the few development activities that is actively seeking locations in rural Maine.

- Trying to move forward on big development proposals without effectively engaging local environmental protection and community development interests together and as early in the process as possible.

- The belief that the state can do it all from Augusta, top-down, in the absence of authoritative, widely-supported, and persistent regional development plans that are built upon local comparative advantage and become the drivers for state technical support and investment dollars.

And what are some of the things that have worked and from which we may learn?

- MBNA. In this case the private sector, largely out of the chief executive's attachment to place and quality of life, brought several thousand quality jobs to a half dozen

Maine communities, many of them in the rim counties, even while the company was making substantial contributions to their civic lives and "creative economy," especially in Knox and Waldo counties. The lesson of MBNA is two-fold. First, in the words of the recent Brookings Institution report on Maine, "quality of place" matters to investors, residents, and visitors, alike, and must be safeguarded.[vii] Second, the MBNA story was only successful because Maine was able to improve the connections (in this case telecommunications) between rural Maine and the rest of the world.

- Individual entrepreneurs. Whether it is in local agriculture, boat building, outdoor recreation, aquaculture, or tourism and hospitality, entrepreneurs both local and from away are assessing local comparative advantage, taking risks, building new companies, and making a mark in communities that offer their support. Successful or not, they need community support and encouragement along the way.

- The redevelopment of Loring Air Force Base in Limestone, as the direct result of a regionally-driven partnership among all levels of government and the private sector that has replaced all of the civilian jobs lost when the air base closed. In today's complex world, collaborations and partnerships across sectors and between levels of government matter, can mobilize needed resources, and make a difference. The entrepreneurial spirit of the Maine National Guard in creating the military vehicle repair and maintenance facility that now employs several hundred people also shows how meaningful change can come from any sector, public or private, and that the key question is not what sector you are in but whether you can be creative and innovative.

The Future. So where does this leave rural Maine's economic future, economically? In the end, rural Maine must ask the same questions that have always been at the root of sustainable economic development:

- What do we have to sell in this region that people in other places will want to buy?

- How will we communicate effectively with other places to make ourselves known and to sell what we have?

- How do we effectively and efficiently manage what we have so it will be available to this and future generations on a sustainable basis?

Further, the evolution of the economy in Maine and elsewhere raises a new set of confounding questions:

- What do the profound changes in our urban/suburban places portend for the fate of our rural areas?

- How might rural areas take best advantage of the structural shift of the knowledge-based, service economy towards urban places?

In answering these questions, advocates for rural Maine must remember that its fate has always hinged on its relationship with urban areas. This intimate connection between city and country has been one of the post important insights about how economic development takes place.[viii] *We are, and have ever been, in this together*. Paper from the Maine forests serves the newspapers of the major urban areas, where many of the buildings were built from Maine lumber and granite. Maine potatoes and fish are found on the tables of homes and restaurants from Boston to San Francisco. Rusticators from urban places have long found refuge and solace in rural Maine from the pace and stresses of urban life. This is true today as it was 100 and even 150 years ago.

So, what does rural Maine continue to have that people in urban areas in Maine and beyond want? Three forces are at work, from which to begin.

More Specialized Markets for Maine Products and Service *In one sense it is as true today as it has always been: the abundant and productive natural resources of Maine still provide the basis for significant industries; but as those industries undergo profound changes, Maine will no longer be a low-cost producer of a wide array of commodity products that are sold in national and global markets primarily on the basis of low price.*

With few if any exceptions, *the future of Maine's resource industries lies in specialized products within distinct market niches*. The experience of Lincoln Pulp and Paper (now Lincoln Paper and Tissue) and of the International Paper mills in Jay and Bucksport demonstrates this clearly. Both are examples of a transition from broad-product line companies to specialty producers. Both are also examples of the changing ownership of Maine's forest products industry (and forest lands) towards investment companies that specialize in owning companies with distinct market niches.

This trend may also be seen in agriculture, where potatoes give way in part to a variety of smaller, more specialized crops such as broccoli and flax. The success of smaller specialized food products companies such as Mother's Mountain Mustard (which grew from the tradition of sardines packed in mustard) to Stonewall Kitchen also points the way for the food processing and marketing sides of agriculture.

The need to focus on specialized markets is clear because higher production costs in Maine relative to other places around the world must be offset by higher prices; and *consumers will pay higher prices only if they are getting something extra in return in the form of service, quality, variety, or innovation*. So long as Maine's natural resource industries continue to supply customers with products that meet these needs, Maine's rural places will continue to have a solid foundation in their traditional resource industries.

The other scarce commodity that Maine's rural areas have to sell, as they have always, is their scenic character and recreational opportunities. Tourism and recreation are the only natural resource industries that have shown growth in recent decades while *all* the others have declined; but competition also affects this industry and Maine has not competed well of late.

Maine has lost market share for overnight visitors in recent years, though there was some growth in 2005; and growth in tourism-related industries, particularly in coastal areas, has lagged behind other places in the northeast and the rest of the U.S. Competition within Maine for the state resources on which this industry depends is also keen; and raises much the same kind of controversy that plagues the groundfish industry, as communities, interest groups, and the state struggle over the appropriate balance between different types of recreation, and between recreational demands and resource management throughout the Maine woods and along the Maine coast.

Still and all, the rim counties, like much of Maine, are blessed in abundance – if we can use and keep them through the skillful application of sound planning and good design – with:

- A diverse landscape, from mountains to river valleys to the sea, without surpass;
- An organic and local agriculture that is today in ascendance, with a long tradition of food processing and marketing;
- A heritage of domestic architecture that chronicles two and one-half centuries of Maine life, in settings that remain largely compelling;
- Literally dozens of historic, once-prosperous downtowns that await redevelopment and revitalization;
- Immediate and generally easy access to the natural world in a variety of ways and forms, to an extent that many other places in this part of the world do not enjoy; and
- A century and one-half's traditions of hospitality in a myriad of forms and settings, from primitive recreation and wilderness outfitting and guiding to high-end tourism services.

The economic future of the rim counties will lie in the careful and creative development of these assets.

Telecommunications. A second major force affecting rural Maine has historic roots with a modern twist. Where rivers and rail provided the communications links that opened rural Maine to industrialization, today it is highways and telecommunications that are the keys to rural Maine's links to the rest of the world. Projects such as the Aroostook Highway and versions of an east-west highway may play important roles, though the cost of these projects makes their realization likely only in some distant future; more critical will be telecommunications, which has the effect of eliminating some effects of distance, altogether.

The role of high speed, high capacity telecommunications and the Internet has been widely seen as one of the possible salvations of rural regions throughout North America; and they have already begun to play some role, as evidenced by the teleservices industry. The exact dimensions and shape of telecommunications in transforming rural regions remain unclear, however, both because rural areas tend to lag urban areas in the development of appropriate capacity, and because the impacts of information and communications technology are still in their early years. It is only a decade since the Internet began to transform economic activity, which is not very long in the history of technology and its economic effects.

The Urban-Rural Dilemma. Finally, there remains the increasingly complex relationship between Maine's urban and rural places, for which effective, local and regional planning and development mechanisms do not now exist. They will need to be invented if the assets we now enjoy are to survive as a basis for sustainable prosperity.

This is partly a question for the mini-urban areas within the rural regions, what in Maine have come to be called the "service centers." While rural Maine has traditionally been perceived as the antitheses of urban, most economic activity in Maine historically has taken place in the towns where paper and lumber mills and the apparel, shoe, textile and food processing factories were located. These communities must now serve different roles as service and retail centers for the residents of their regions, as well as the centers for new tourism activity such as arts festivals, shopping, restaurants, and lodging. Health care facilities such as hospitals and ambulatory care facilities will also play a critical role here.

The question is most important in terms of the role that will be played by communities located within or near the state's service centers. World-wide experience with service economies tells us that the expansion of our urban places will continue, and many parts of rural Maine will undergo the painful and difficult transition from more self-sufficient to bedroom communities for urban centers. Finding the balance between the rural character of these communities and their new role as part of urban regions will continue to be a major challenge to the civic fabric and capacity of Maine.

The present period is one of difficulty and distress for much of rural Maine, most particularly in the rim counties; yet the outlines of future economic opportunity in these areas are already present. They are modern variations on the themes of efficient resource utilization, connection to the rest of the world, and the effective relationships between rural Maine and urban places that have shaped the region throughout history. The challenge is to recognize and seize the opportunities created by these new variations, and to find new ways to generate economic opportunities for rural Maine people in the post-industrial global setting.

[i] Edward W. Potter, Public Policy and Economic Growth in Maine, 1820-1857, Doctoral Thesis, University of Maine, Orono, ME, May 1974, pp. 289-99.

[ii]Bureau of Economic Analysis Regional Economic Information Service

[iii] For an excellent explanation of the lobster industry's exception, see James Wilson, "Maine's Fisheries: Learning to Govern Effectively," Ch. 21, pp. 411-428, in Richard Barringer, ed., 2004. *Changing Maine, 1960-2010*, Tilbury House, Gardiner, ME.

[iv] In addition, the Census Bureau and Office of Management and Budget have developed a new type of urban region, the micropolitan region. The only major difference between the metro and micro regions is the size of the central city. Maine now has six micropolitan regions to go along with its three metropolitan regions.

[v] For a more elaborate discussion of the "urbanization" of the Maine landscape in the post-industrial economy, see Charles Colgan, "Maine's Changing Economy: The Rise of 'Urban Maine,'" Ch. 2, pp. 29-50, in Richard Barringer, ed., *Changing Maine, 1960-2010*, op. cit.

[vi] See, for example, *Economic Development Programs in Maine: EDPs Still Lack Elements Critical to Performance Evaluation and Public Accountability*, Office of Program Evaluation and Governmental Accountability (OPEGA), Maine State Legislature December 2006, Augusta, , available at http://www.maine.gov/legis/opega/reports.htm.

[vii] See The Brookings Institution, *Charting Maine's future: An Action Plan for Promoting Sustainable Prosperity and Quality Places* 2006 Washington D.C pp. 98-130.,.

[viii] See. Jacobs, Jane. *Cities and the Wealth of Nation: Principles of Economic Life* 1984. New York: Random House, and Condon, William, *Nature's Metropolis: Chicago and the Great West* New York: Norton & Co.