Transfer of Wealth in Rural America

Understanding the Potential
Realizing the Opportunity
Creating Wealth for the Future

By
Don Macke
Deborah Markley
Ahmet Binerer

The Center for Rural Entrepreneurship is the focal point for energizing entrepreneurial communities where entrepreneurs can flourish. Created in 2001 with founding support from the Kauffman Foundation and the Rural Policy Research Institute (RUPRI), the Center is located jointly in Nebraska and North Carolina. The Center's work to date has been to develop the knowledge base of effective practices and to share that knowledge through training and strategic engagement across rural America. Working with economic development practitioners and researchers, the Center conducts practice-driven research and evaluation that serves as the basis for developing insights into model practices and other learning. The Center is committed to connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy. To learn more about the Center, visit www.energizingentrepreneurs.org.

The Rural Policy Research Institute (RUPRI), founded in 1990, provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places. RUPRI's research infrastructure includes diverse teams of researchers and practitioners, both across the U.S. and internationally, investigating the complex challenges and emerging opportunities in rural and regional development. This portfolio includes policy analysis and decision support, research and outreach, coordinated through a core team in Missouri and Washington, D.C., who support the work of national initiatives, panels and centers, **including the Center for Rural Entrepreneurship**. To learn more about RUPRI, visit www.rupri.org.

The Inter-Generational Transfer of Wealth (TOW) analysis is a service of the RUPRI Center for Rural Entrepreneurship. Original founding support to develop the TOW analysis was provided by the Nebraska Community Foundation (NCF). For more information about NCF, visit www.nebcommfound.org. Subsequent support was provided by RUPRI and regional funding partners. The TOW analysis is designed to help rural communities understand the potential behind the inter-generational transfer of wealth so that they can become more strategic about realizing this potential and reinvesting in ways that create greater wealth in rural America in the future.

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The time seemed right to write this book and share insights from more than a decade of work devoted to understanding the transfer of wealth (TOW) opportunity in rural America, realizing this opportunity through strategies that connect community economic development and philanthropy, and creating wealth through entrepreneur-focused economic development efforts. This work has benefited from the support and partnership of many individuals and organizations. The rural transfer of wealth work was supported at its inception by Jeff Yost and the Nebraska Community Foundation and we acknowledge their important contribution.

We gratefully acknowledge the support over the past decade of the Rural Policy Research Institute (RUPRI) and its senior leadership, Chuck Fluharty and Brian Dabson. This relationship helped the Center solidify its mission, expand its learning, and contribute positively to the ongoing policy dialogue about the future of rural America. The work of the Aspen Institute's Community Strategies Group and its co-directors, Janet Topolsky and John Molinaro, has helped to build the foundation for a rural development philanthropy movement. We are the beneficiaries of their continued efforts, along with the Rural Development Philanthropy steering committee, to expand this practice to more rural foundations and places. We warmly acknowledge the Center's John Hitt for his excellent support and preliminary editing.

Most importantly, we have been aided in this journey by a group of innovative and committed local and regional partners who have helped us test theories and practices, learn from their efforts on the ground, improve our work, and contribute to positive outcomes for rural places. We are humbled by their commitment to their rural hometowns and regions. We are honored to work with them to find ways for rural communities to harness their assets, create wealth, and build homegrown development resources that enable them to follow a more hopeful path to a self-determined future. We thank our current and future partners across rural America.

Don Macke
Deb Markley
Ahmet Binerer
August 2011

Foreword

As a child growing up in rural Wisconsin attending a two-room country school, I fondly recall the days of the Pleasantville Community Club. It was a monthly gathering of neighbors with two simple goals. First, we wanted to create a community where people knew each other and cared for each other. Second, we wanted to promote our little community to others.

Steve Gunderson

Today, we still want to create community! While rural economies and rural demographics have changed, the value of building community survives and thrives. This book is about building community. This book is about capturing a small part of the intergenerational transfer of wealth in ways that can build America's future – in community after community.

No historian would suggest that the decade of the 1930's defines the 20th century in America. Two decades later, those same historians described the promise of the Roaring Fifties – unparalleled new wealth created in ways that produced our nation's middle class. While the great recession of 2007 – 2009, followed by the uncertainty of current debt crises around the globe, could be a cause for gloom, it doesn't need to be. This book outlines the potential and the pathways for a new era of growth and opportunity.

Governments across our nation seem to be both broke and broken. Our politics seem to be polarized in ways that paralyze public discourse. In truth, our political process has simply not kept up with the amazing pace of change. A lot of people, myself included, went into public service in hopes of making positive change. Today, you will find many of us – from both political parties and across the ideological spectrum – in new fields building new careers seeking to create the same outcomes.

While the public sector will certainly do less, the American public has the opportunity to do more. Former President Bill Clinton leads a long list of people who have transitioned from public and private sector careers to lead a new – and in many ways more important – chapter in building community after community.

During the past six years, I've had the honor of leading the Council on Foundations, America's largest organization serving philanthropy. While much has changed, the most significant transformation during my tenure has been philanthropy's emerging leadership role in American – and even global – society. Despite the recent economic challenges, Don Macke, Deb Markley and Ahmet Binerer, with the Center for Rural Entrepreneurship, share with us in this book the incredibly exciting news of the new scenarios for intergenerational transfer of wealth in America. In 1999, the research suggested we'd witness a $50 trillion transfer of intergenerational wealth between 2000 and 2050. Today, the Center team projects the next fifty years will see a $75 trillion transfer of wealth! Despite the markets and despite the lack of government resources, the wealth of America's people continues to grow.

The question before us, and the subject of this book, is whether we are willing and able to capture just a small part of this wealth in ways that can again build community. Everyone in America, across all political labels and ideologies, wants to build a future for their families and their neighbors, their communities and their country. This book offers you an understanding of the American wealth opportunity that exists today – in your community! It describes how we can realize new opportunities to capture and create wealth that builds our community's future. And it concludes by suggesting ways in which the American tradition of entrepreneurship can be used to create new opportunities for new generations.

The Pleasantville Community Club no longer exists. It ended with the closing of the two-room country school and the change in our rural economy. But, there are thousands of communities like Pleasantville that still exist across our nation. Read this book. Learn how you can capture just a small part of the current wealth within your community in ways that enable you to build a greater future.

Steve Gunderson
August 2011

Contents

CHAPTER 1

Introduction

Why This Book Now

This book is written at a time when our sense of well being – the sense that we, as a nation, are in a "sound, healthy or prosperous state"[1] – has been fundamentally shaken. We are emerging, albeit haltingly, from a recession of historic proportions. We have seen the erosion of individual and family assets and wealth, and the concurrent decline in the capacity of the public sector – at local, state and federal levels – to maintain even the most basic of investments in areas such as education, social services, and public infrastructure. Community, state and national leaders are confronting a perfect storm. The need for creative, innovative solutions to building more competitive economies is being met by a constrained traditional resource environment for funding these necessary investments.

As is so often the case, out of challenge comes opportunity. The economy is experiencing a grudgingly slow rebound. American wealth is being restored – at least for some. The potential exists for communities and regions across the country to take a new approach to economic development that offers the promise of creating the foundation for a more prosperous America in the decades ahead. To realize this potential, leaders – in town and city halls, in regional organizations, in statehouses, and in Washington – need to adopt a longer-term focus on wealth creation in addition to the more prevalent, short-term focus on getting people back to work. It will require recognition that creating wealth today forms the basis for greater wealth creation tomorrow. We will need to think regionally and overcome the petty squabbles that keep small towns from working together and that pit rural and urban interests against one another. And, we need to recognize that wealth – an abundance of resources of all types – provides the foundation for progressive action. It is the fuel that enables regions to build on their own unique assets and to craft strategies that not only create wealth but offer opportunities for greater local ownership and control of that wealth. Entrepreneurs, both private and social, represent key ingredients in wealth creation that need to be nurtured and supported.

We have written this book to share insights from and bring together two important threads of the Center for Rural Entrepreneurship's work over the past 10 years – and earlier work that led up to the formation of the Center. One area of work is research on the intergenerational transfer of wealth opportunity facing the U.S. over the next 50 years. Building on the pivotal work completed by Boston College's Social Welfare Research Institute in 1999,[2] Don Macke worked with the Nebraska Community Foundation to develop the first state transfer of wealth model.[3] The Nebraska study provided important insight into wealth creation and transfer in rural areas that, because of their slow growth and population decline, are not often considered to have philanthropic capacity. The Nebraska Community Foundation likewise serves as a model for the effective use of this research to make the case for statewide community endowment building. Since that initial study, the Center has conducted or contributed to 32 studies in different geographies across the country. This work has provided insight into not only the magnitude and timing of the wealth transfer opportunity but also how communities, regions and states are trying to capture some component of this wealth for community betterment in the years ahead. As Maine Rural Partners stated in a report on the state's transfer of wealth opportunity:

> Maine communities have an abundance of built, cultural, financial, human, natural, political, and social assets. Yet Mainers are facing difficult economic challenges with limited resources… . We have a tremendous asset at our fingertips. **Over the next ten years, the citizens of Maine will likely transfer $29 billion to the next generation.** This large-scale intergenerational transfer of wealth offers an unprecedented opportunity to create a meaningful legacy – **if we step up to count our communities among our heirs.**[4]

The other area of work reflected in this book is the Center's effort to understand the potential of and encourage entrepreneur-focused economic development as a core component of strategies to build wealth and contribute to more resilient regions across the country, especially our rural landscapes. Capturing a portion of the expected transfer of wealth begs the question – capturing it for what? How should that wealth be invested to create a virtuous cycle of wealth creation in regions across the country? Our work leads us to believe that investment in supporting entrepreneurs and the creation of entrepreneurial ecosystems is a key to economic recovery for the country as a whole and the best strategy for rural regions of the country to become resilient, contributing partners in economic prosperity. In his 2011 State of Entrepreneurship Address, Carl Schramm, President and CEO of the Ewing Marion Kauffman Foundation, made two critically important points:

> The willingness of ambitious individuals to stake their future on an idea, and launch a business that puts the idea to the test, underpins the dynamism of the U.S. economy. Indeed, this entrepreneurial process is the only certain source of long-term growth and the jobs that go with it.
>
> There are a lot of people with the gumption to take a chance. But the real need is to lift the entrepreneurial batting average so that there are more *highly successful* entrepreneurs.[5]

Through this book, we hope to connect the American wealth opportunity – and the historic intergenerational transfer of wealth that will occur over time – with the entrepreneurial energy that will play a key role in creating future economic activity and wealth for our communities, rural and urban.

Organization of the Book

This book is organized into three sections. The first focuses on *understanding* the American wealth opportunity. This country has been resilient at creating wealth over time, responding to economic crises with renewed bursts of expanded economic opportunity. Much of this expansion has been led by the private sector, but the public sector role in creating the stable environment for wealth creation and making investments in infrastructure to support that growth has been equally vital. An important component of America's wealth opportunity relates to the intergenerational transfer of wealth that will occur over the next 50 years. While nationally this transfer of wealth represents the natural process of passing on accrued assets to the next generation, many rural regions are facing a significant potential loss of wealth as current generations retire or pass on, often closing businesses and leaving assets to kin who reside outside rural America. To help you understand the transfer of wealth opportunity and the potential for creating a give back culture to capture some component of that wealth, we will share insights from the Center's transfer of wealth research.

The second section will focus on *realizing* the wealth creation opportunity. We will make the case for why the present time – one characterized by serious constraints in the traditional resource environment in support of economic development – is the right time to focus on creating an alternative, homegrown pool of development resources. Linking our American tradition of giving back to the community development philanthropy movement, we will explore the importance of these local resources as a way of empowering local and regional decision making, encouraging civic democracy, and enhancing social and environmental justice.

The final section will focus on *connecting* wealth creation and entrepreneurship. For the past 10 years, the Center for Rural Entrepreneurship has worked to understand the promise that entrepreneur-focused economic development can offer rural communities and regions across the country and to share this understanding through a range of research, outreach and policy-related activities. We draw on this experience to make clear how entrepreneurs contribute to wealth creation and their role in the wealth pipeline – from building individual, family and business assets to creating community wealth.

The Audience for this Book

Who might receive value from reading this book? We see three key audience groups for the information shared in this book. One, community foundation leaders, staff, and boards should find *inspiration* and ideas in the research and stories of how the transfer of wealth scenario analysis is being used to make the case for community development philanthropy and give back. Two, regional economic development leaders and their staffs should find *encouragement* that supporting entrepreneurs can be an effective economic development strategy and that tapping locally generated resources for development is a real possibility. Three, major foundations, state and federal policy makers, and others who can be supportive of the work happening in regions across the country should find a *rationale* for considering how philanthropic and public policies and programs can more effectively support private and social entrepreneurial efforts to create wealth and restore prosperity to the country.

1 Merriam-Webster dictionary's definition of "weal" (the root of "wealth").

2 Paul G. Schervish and John J. Havens, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Social Welfare Research Institute, Boston College, October 1999.

3 Don is co-founder of the Center for Rural Entrepreneurship. In 2001, he was senior advisor to the Nebraska Community Foundation and conducted the Nebraska transfer of wealth work.

4 *Realizing Maine's Worth*, Maine Rural Partners, 2010, http://www.mainerural.org/legacy/Realizing-Maine-Worth.pdf.

5 Carl J. Schramm, *2011 State of Entrepreneurship Address*, National Press Club, Washington, D.C., February 8, 2011, http://www.kauffman.org/uploadedfiles/soe_address_2011.pdf.

CHAPTER 2

Understanding American Wealth

Background

During the peak of the Great Recession Warren Buffet was interviewed on CNBC and asked "what will bring America back to prosperity?" His response, we believe, is the foundation of America's capacity to create wealth. Mr. Buffet responded that it will be the same force that has always brought prosperity to America – "the regenerative power of American capitalism."[1] Underlying this "regenerative power" are some core American values – democracy, economic opportunity, innovation, entrepreneurship, resource abundance.

Democracy. American democracy is not perfect, but it embraces the values of a classless society, personal responsibility and the opportunity for self-improvement. The concept of hard work as a pathway to a better life is rooted in American culture and has encouraged waves of new immigrants, bringing their financial and human capital to our shores. Our democratic system also has supported policies and investments that enable upward mobility and personal freedom, among the most important of these is America's historic commitment to public education. Even today, educational attainment is one of the strongest predictors of personal and community wealth.

Economic Opportunity. While America's economic system has been challenged with depressions, recessions, and economic bubbles, our overall economic history is one of progress, reform and re-invention. A consistent and fundamental national value over time has been that, regardless of race, sex, religion or any other factor that differentiates among Americans, we each have the opportunity for personal economic advancement and success. That value, however, is under increasing pressure during this current period of historic inequality in the overall distribution of income in the country.

Spirit of Innovation. Americans embrace innovation and we have created vast networks and investments that foster and reward innovation (e.g., university and federal research labs). Innovation when commercialized becomes the foundation for new wealth creation. While innovation may destroy old wealth (e.g., the horse and buggy), it generally enables far greater wealth creation (e.g., the motor vehicle). And, while innovation is often equated with new technologies, innovation is equally present in the renewal or re-engineering of existing products or services (e.g., Jiffy Lube).

Entrepreneurship. One might argue that, over time, American democracy, economic opportunity, and spirit of innovation have resulted in a climate more supportive of entrepreneurs than almost any other nation or society in the world. This observation is supported by early Global Entrepreneurship Monitor (GEM) research showing the U.S. consistently at the top of the innovation-led economies included in the study. However, the climate is changing and 21st century entrepreneurship is truly global. The 2009 national GEM report noted that "contrary to past performance, when the United States led innovation-driven economies in early-stage opportunity-based entrepreneurship, in 2009 the United States lost its foothold. Today, opportunity-based entrepreneurship represents about the same percentage of total early-stage activity (%TEA) in the United States as it does in the average innovation-driven economies."[2] Renewing America's commitment to entrepreneurs is a key to economic renewal and new wealth creation over the coming 50 years.

Resource Abundance. America is blessed with some of the world's greatest natural resources including energy, minerals, forests, soils, water and beautiful landscapes. While America's vast land mass and natural resources enable economic development and wealth creation, possibly the greatest American resource is her people, including historic and current immigrant communities. Immigration brings passion, energy, innovation, work ethic and diversity to America. This diversity is a source of renewed prosperity, creating wealth with each new generation.

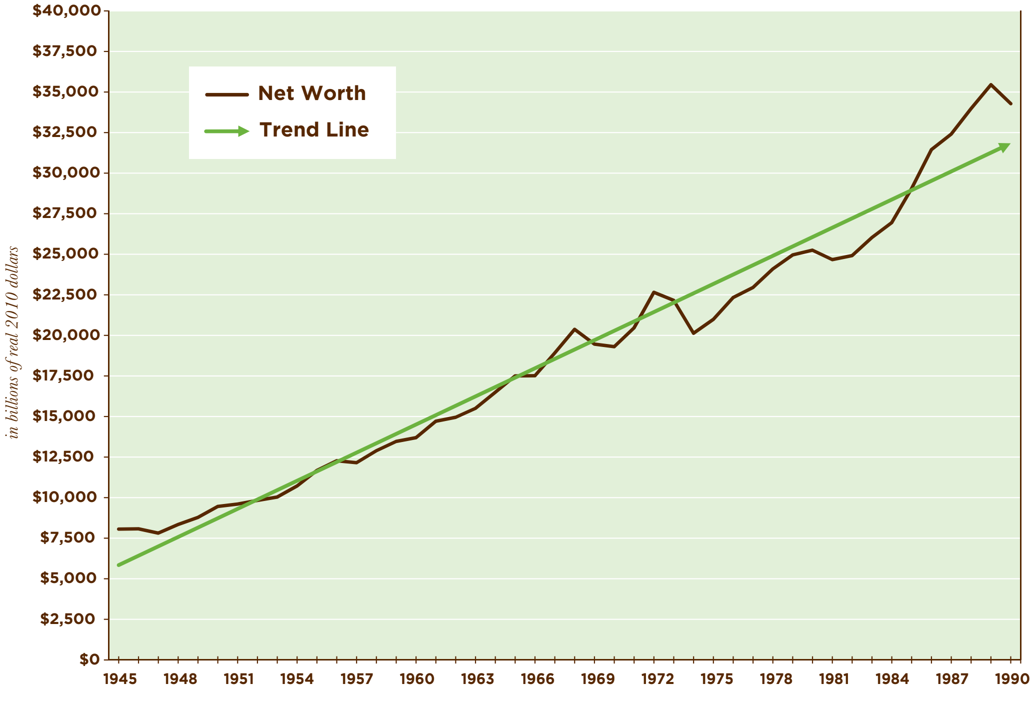
These five core values – democracy, economic opportunity, spirit of innovation, entrepreneurship, and resource abundance – have combined to create the conditions for the country to prosper and to create both personal and societal wealth for generations. The most recent economic crisis, however, has created doubt about the potential to create wealth and encourage philanthropic give back in the coming decades. To provide context and create broader understanding of wealth in America, it is helpful to explore two recent periods of American history – the historic period between the end of World War II and the 1990s and the contemporary period of the 1990s to the present.

The Historic Period

During the historic post-World War II period, there was a demonstrated and powerful connection between overall economic performance and growth in household wealth.[3] The U.S. emerged from World War II in a very unique condition – substantially larger and stronger than the other major mature economic powers. The war-time sacrifices made by Americans were replaced with tremendous pent up demand for more babies, cars, houses, education and consumer goods. Gross domestic product increased consistently through this period.[4]

This period was also marked by increased productivity and increased annual incomes, increased unionization and increased access to higher education through the GI Bill, and widely shared prosperity.[5] As a consequence, household assets were increasing. Figure 1 shows the trend line for current net worth between 1945 and 1990, illustrating the strong growth in household wealth during the historic period with dramatic growth in the 1960s, declines in the 1970s and early 1980s, and strong growth in the last decade of this period.

Figure 1 - U.S. Household Current Net Worth, 1945-1990



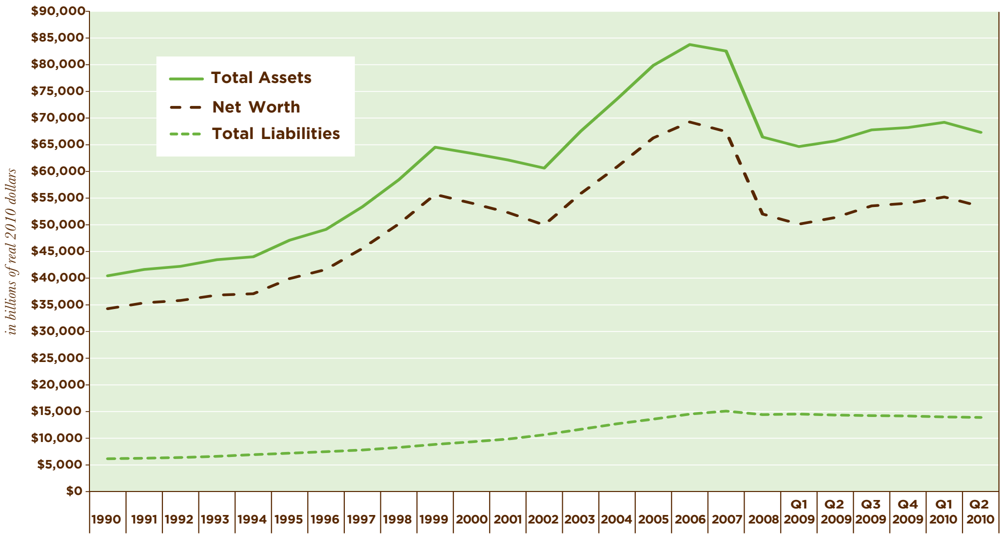
Source: Board of Governors of the Federal Reserve System, Statistical Releases, Flow of Funds - Z.1 and Center for Rural Entrepreneurship December 2010

As early as the 1970s, the global economic environment began to change. After four decades of economic dominance, the U.S. experienced increasing competition from newly industrializing Asian economies (including India, China, Singapore, and a renewed Japan) and increasingly from Brazil.[6] By the 1990s, it was clear that America's dominant position was eroding; lagging demographic and economic growth rates reflected these changes as America moved into the contemporary period. While the underpinning of America's wealth-creation engine may have shifted, the capacity to create new wealth is not necessarily undermined. Global economic growth rather than a growing domestic market now offers new opportunities to grow both the American economy and the wealth of its households and communities.

The Contemporary Period

The last 30 years can be characterized as both the best and worst of times for American households. As the country struggled with globalization and increased international competition, American households, and their ability to create new real wealth, were equally challenged. Figure 2 plots contemporary trend lines for household assets, liabilities and net worth for 1990 through 2010. Three critical trends characterize this contemporary period with respect to new household wealth creation.

Figure 2 - Assets, Liabilities & Net Worth, 1990-2010 Q1



Source: Board of Governors of the Federal Reserve System, Statistical Releases, Flow of Funds - Z.1

Increased Volatility. During the past 30 years, there have been two major periods of wealth expansion and two record-setting recessions. The 1990s were characterized by remarkable real economic expansion that generated relatively widespread wealth creation. This period was followed by the dot-com bubble and ensuing crash, and the recession following the attacks of September 11, 2001. There was a dramatic rise in the value of household assets and wealth from 2002-2006, but this expansion was fueled by debt-driven bubbles in both real estate and the stock market. Beginning in 2007, the country and its households experienced the worst economic downturn since the Great Depression. The U.S. stock market dropped in value by over 50%; household current net worth was eroded by about 25%.

Wealth Concentration. In Robert Reich's recent book, *After-Shock*, he states:

> In the late 1970s, the richest 1 percent of the country took in less than 9 percent of the nation's total income. After that, income concentrated in fewer and fewer hands. By 2007, the richest 1 percent took in 23.5 percent of total national income. It is no mere coincidence that the last time income was this concentrated was in 1928.[7]

As Reich points out, income began to concentrate at a rapid rate in the mid-1970s. Underlying this trend toward increasing concentration of wealth was the erosion of real incomes by America's middle class families. Increases in labor productivity were not rewarded by increases in average hourly compensation, which has remained relatively flat since the early 1970s.[8] This trend, similar to the trend leading up to the Great Depression, is a source of economic instability undermining overall economic growth and the capacity for wealth creation.

Debt-Driven Spending. The final critical trend during the contemporary period is the rise in debt-driven spending that Reich sees as a consequence of stagnant growth in real incomes for most Americans. In an effort to maintain a middle class lifestyle, and aided by more relaxed lending standards, American families began to borrow. Savings rates went from about 9% of after-tax income in the mid-1970s to 7% in the late 1980s to 6% in 1994, and a meager 2.6% in 2008.[9] Net worth disappeared for many American households as debt surpassed assets in value. This trend was obviously unsustainable, contributing to the housing crash, dramatic declines in overall consumer spending, and ultimately a slower economic recovery. Only as households have worked to get their finances in order have saving rates increased and debt to asset ratios improved.

A key reason for comparing the historic and contemporary periods is to highlight that the relationships that held over the 1950-1990 period should not be assumed to define post-Great Recession trend lines. Over the past 20 years, fundamental changes such as globalization, wealth concentration, immigration and slower overall economic growth suggest fundamental new realities for American society. From the perspective of understanding American wealth, we interpret these changes to mean that future wealth creation in the U.S. will be somewhat lower and more concentrated in the top 25% of U.S. households. Assumptions about these structural changes are embedded into the new 50 year household current net worth and transfer of wealth scenarios presented in Chapter 3. These scenarios reflect the transition America is making from the heady days of the historic period to the new realities associated with the contemporary period.

Building Blocks of American Wealth

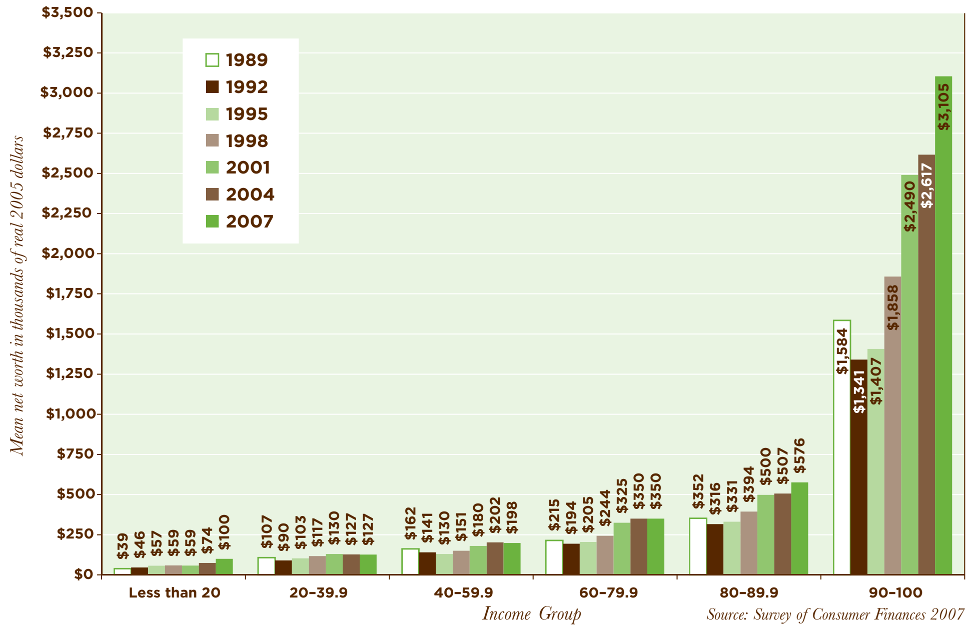
WWhat contributes to wealth creation in America? Every three years beginning in 1983, the Federal Reserve Bank has conducted the *Survey of Consumer Finances*, providing a snapshot of average U.S. household net worth. The most recent survey data covers 2007, the bubble peak before the Great Recession took its toll on household wealth. Analysis of this research suggests several key factors that shape and drive household wealth creation:

- **Household income**
- **Age of household head**
- **Family structure**
- **Education**
- **Ethnicity**
- **Work status/entrepreneurship**
- **Occupation**
- **Housing status**

The relationship between each of these factors and wealth, or current net worth (CNW), is explored in more detail in the following pages.[10]

Household Income and Wealth Creation. As one might expect, there is a strong connection between household income and wealth accumulation (Figure 3). In 2007, Americans in the top 10% income group averaged $3.1 million in CNW compared to $100,000 for households in the bottom 20%. These averages are just that – averages. There are ample stories of modest income families that saved, invested well, and left a sizeable estate to their church, school or community. At the same time, there are Americans with exceptionally high incomes who are challenged to make ends meet due to extravagant lifestyles. However, Figure 3 demonstrates a clear positive correlation between income and the ability and probability of households creating larger estates.

Figure 3 - Average U.S. Net Worth by Income Group

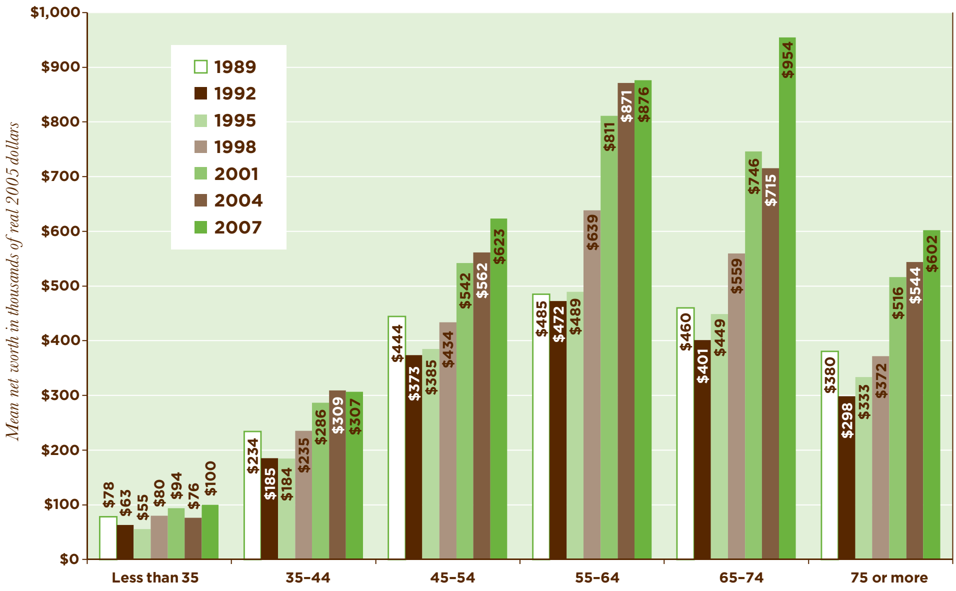


Age of Household Head and Wealth Creation. The age of household head is also a strong predictor of wealth accumulation. On average, assets accumulate as we age in the form of homes, retirement funds, investments, businesses, etc. (Figure 4) In general, young household heads accumulate limited wealth as they struggle to pay for school, start a family and establish a career. By the time most household heads reach their 40s, wealth accumulation takes root and grows, hopefully, as they age toward retirement. Wealth holding diminishes as household heads continue to age, incomes decline, and savings are spent down or given away.

An interesting change between the 2004 and 2007 surveys reflects the trend toward extending working life into the late 60s and beyond. For the first time in the history of the survey, peak wealth holding is now achieved in the 65 to 74 year old age cohort as opposed to the 55 to 64 age group. Greater life expectancy and increased uncertainty over retirement programs and Social Security translate into greater pressure in the latter part of peak earning years to accumulate necessary assets to support retirement. In terms of understanding wealth creation and the potential to build estates, these data suggest that life stage really matters.

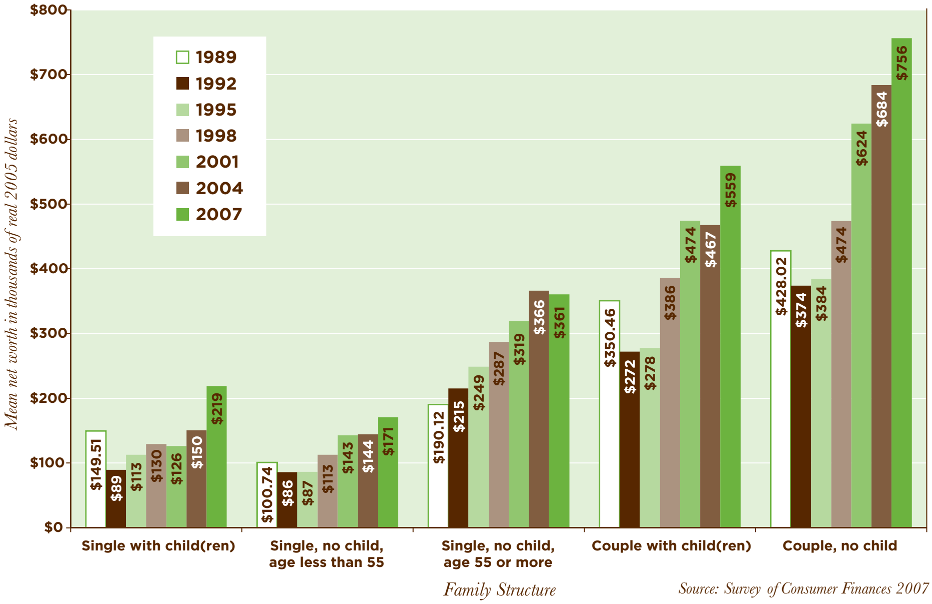
Family Structure and Wealth Creation. Family structure is a good predictor of wealth status and Figure 5 provides a number of comparison groups based on the Federal Reserve's research. As expected, a couple with no children has significantly greater wealth than a single parent with children ($756,000 vs. $219,000). Preliminary Census studies (2009 American Community Survey) suggest that Americans are coping with the current recession by delaying marriage and having fewer children; both trends may reflect coping strategies for dealing with the uncertainty caused by the recession and the need to stabilize assets ahead of these life changing events. These contemporary trends coincide with the increased average age for first marriages and continued declines in average family size observed over time.[11]

Figure 4 - Average U.S. Net Worth by Age of Head of Household



Source: Survey of Consumer Finances 2007

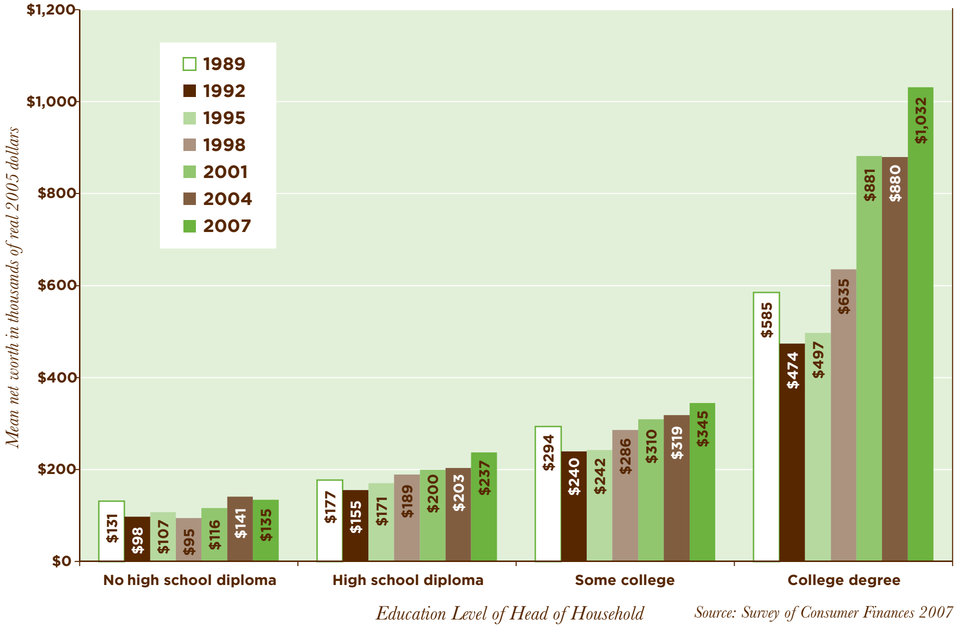
Figure 5 - Average U.S. Net Worth by Family Structure



Source: Survey of Consumer Finances 2007

Education and Wealth Creation. There is broad agreement that education is key to the ability of households to get ahead.[12] Figure 6 illustrates the relationship between education and CNW, and the difference is profound. In 2007, a household head with a college degree had over $1 million in CNW compared to $135,000 in CNW for one without a high school diploma. Census research suggests an even greater gap when advanced or specialized education is considered. Historically, a high school diploma was adequate to ensure a reasonable income. In 1975, the annual earnings associated with a bachelor's degree were 1.5 times the earnings of someone with a high school degree, a modest premium. In 1999, that premium grew to 1.8 times, while annual earnings for an individual with an advanced degree were 2.6 times those of someone with only a high school education.[13] This research suggests that in an economy characterized by globalization and advanced technology, post-16 education with specialization appears to be increasingly important to achieve a somewhat secure middle income lifestyle. There are exceptions; Figure 8 shows the important role of business ownership as a pathway to wealth formation and accumulation. Many entrepreneurs are exceptionally bright, innovative, and creative, but may not have advanced formal education typically associated with wealth creation.

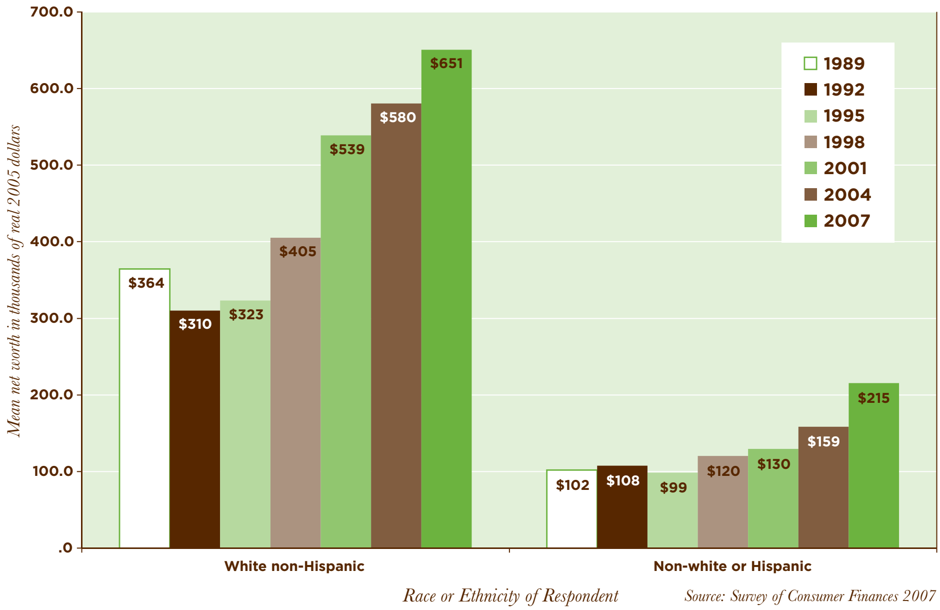
Figure 6 - Average U.S. Net Worth by Education Level



Source: Survey of Consumer Finances 2007

Ethnicity and Wealth Creation. Unfortunately, the legacy of disadvantage based on racial ethnicity continues to be reflected in household wealth holding. Figure 7 compares average household wealth for "White non-Hispanic" households with "nonwhite or Hispanic" households. On average, white non-Hispanics have estates that are three times greater than those of people of color. Unfortunately, the sample size does not provide more detailed breakdowns by ethnicity. As one might expect, other factors can alter these relationships. For example, educational attainment and business ownership by minorities may significantly increase wealth holdings as it does for white non-Hispanic households.

Figure 7 - Average U.S. Net Worth by Ethnicity

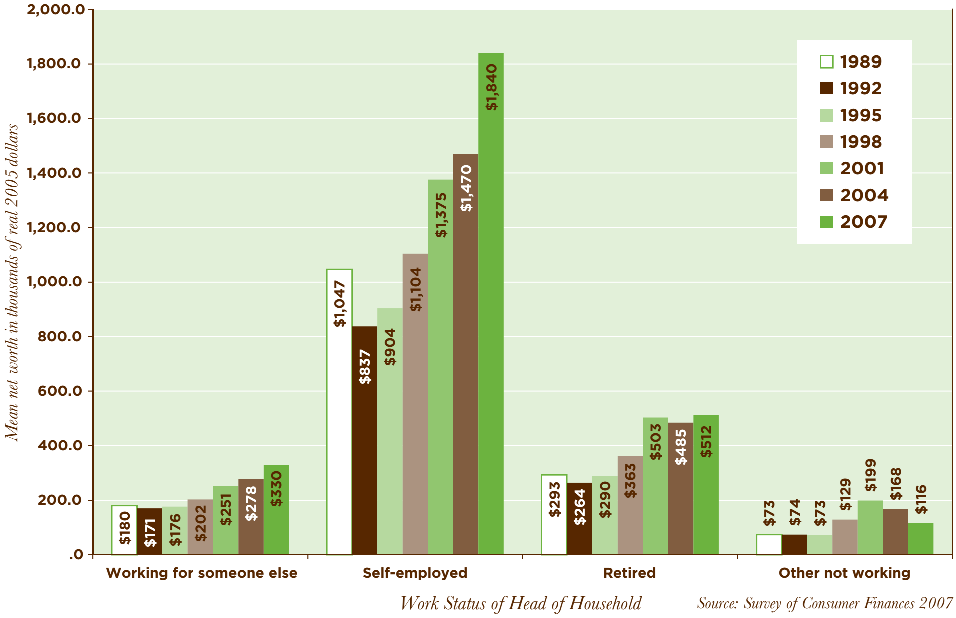


Source: Survey of Consumer Finances 2007

Work Status/Entrepreneurship and Wealth Creation. Entrepreneurship or business ownership is part of America's tradition. From our earliest history, a promising pathway to economic success and security was through self-employment or business ownership. For many immigrants unable to obtain good jobs, business ownership was the primary route to economic success and wealth formation. The path to business ownership is not without obstacles, and many new businesses fail. Despite this reality, on average, CNW of self-employed household heads was 5.6 times greater than those who work for someone else (Figure 8).

These figures reflect pre-recession American reality. During the current recession, the rate of "necessity entrepreneurship" was the only form of entrepreneurship to show an increase from 2008 to 2009.[14] As we discuss in Chapter 8, this movement appears to be not just a function of the current economy but a longer term trend. This trend coincides with increasing opportunities to outsource work, not just on a temporary basis but over the long term. What is not yet clear is what implications these trends might have for wealth creation in America. Will this form of entrepreneurship generate comparable wealth to more traditional forms of self-employment associated with owning a store on Main Street, a local construction company, or a manufacturing plant? The answer to this question may lie in whether communities and regions can help these entrepreneurs step onto a pathway from necessity to opportunity entrepreneurship so that their enterprises create wealth.

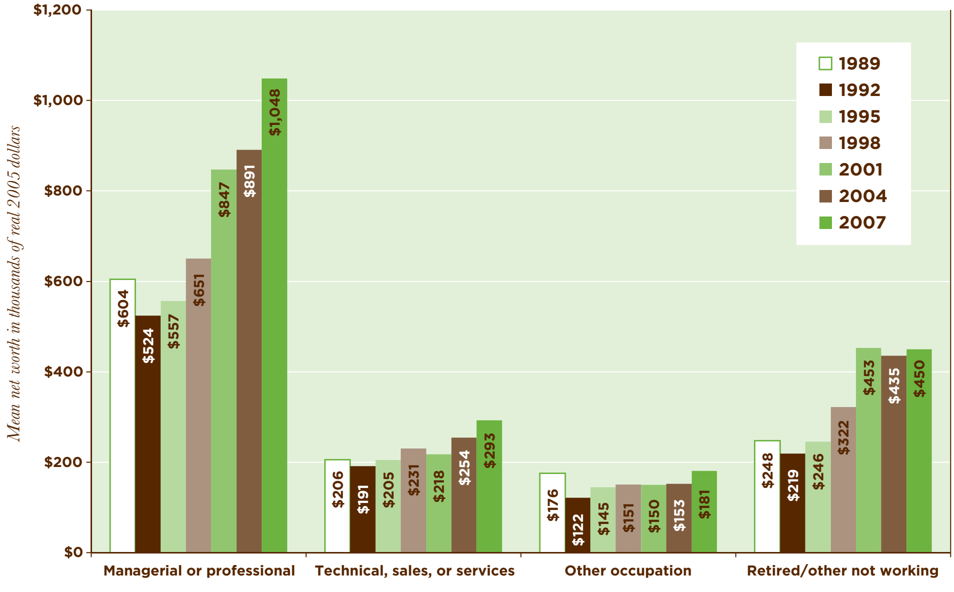
Figure 8 - Average U.S. Net Worth by Work Status



Source: Survey of Consumer Finances 2007

Occupation and Wealth Creation. Career tracks associated with different occupations are also an important indicator of wealth formation and estate size. Household heads in "managerial or professional" occupations have significantly greater wealth as compared to other occupations (Figure 9). As one might expect, there is a strong positive relationship between an individual's level of educational attainment and their occupation. It is increasingly difficult for individuals with a high school degree or less to realize higher incomes as compared to those with more advanced and specialized education.[15] Unfortunately, Federal Reserve research provides only the most basic breakouts by occupation. However, even this limited comparison is helpful in understanding the linkages between education, occupation, income potential and wealth formation.

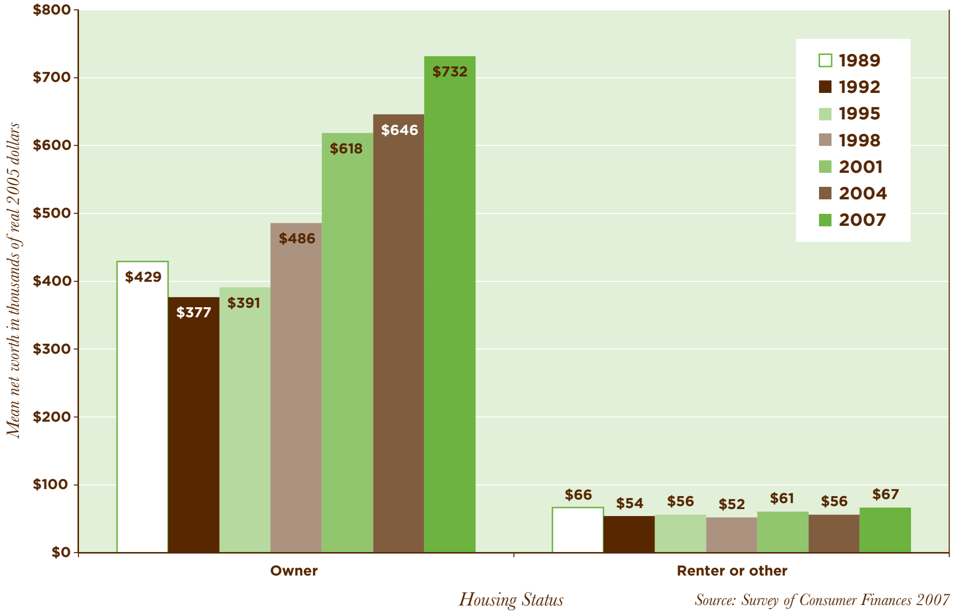
Figure 9 - Average U.S. Net Worth by Occupation



Source: Survey of Consumer Finances 2007

Housing Status and Wealth Creation. The American tradition of home ownership is strong, dating back to the Homestead Act. Federal and state policies, such as mortgage interest deductions, matched savings accounts, and federal mortgage insurance, have historically encouraged home ownership. And, for many households, home ownership is the first step in asset accumulation and wealth formation. Figure 10 drives home the importance of home ownership to wealth creation, demonstrating the striking contrast in wealth holding by household housing status. On average, a homeowner has nearly 11 times more CNW as compared to renters. It remains to be seen whether or not this historic pattern continues to hold true in the face of pressure to reduce the federal commitment to encouraging home ownership.

Figure 10 - Average U.S. Net Worth by Housing Status

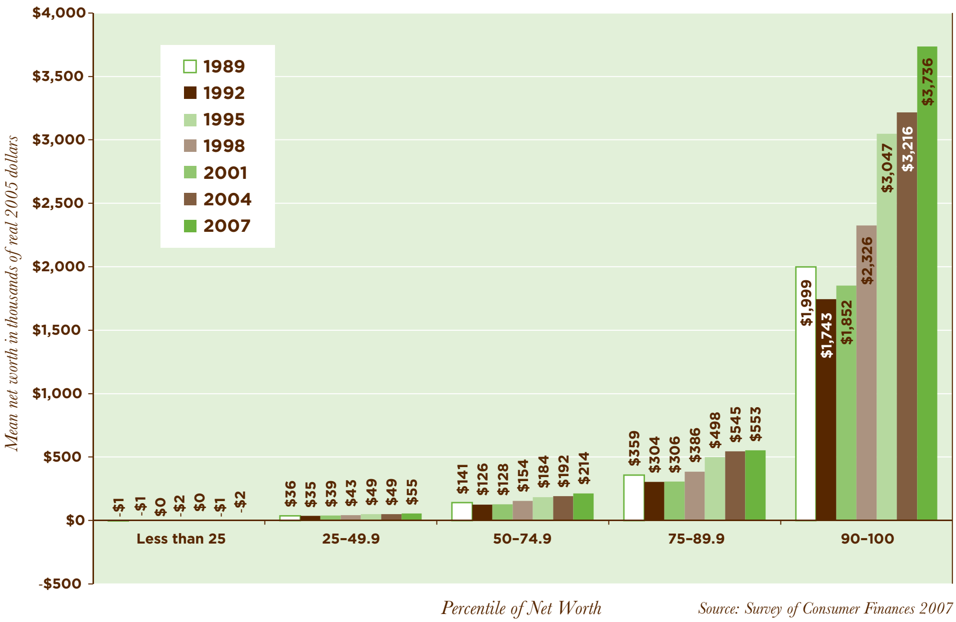


Source: Survey of Consumer Finances 2007

Who Holds the Wealth? Recognizing the patterns and relationships between these drivers and wealth creation is one step in understanding American wealth. A second step is recognizing who actually holds the wealth in the country and in communities and regions. This understanding is critical as communities build give back strategies to create pools of resources to support development efforts over time. For the past 30 years, household wealth holding has been concentrating in the U.S.[16] Using data from the Federal Reserve, all American households are profiled by the dollar value of their estate holdings (Figure 11). The extreme concentration of wealth in the hands of the top 10% is dramatically illustrated. The bottom 25% of households has negative current net worth; the next 25% has very modest estates of between $36,000 and $55,000 (average mean net worth in 2007). In other words, one out of every two American households has a very limited estate, both historically and currently. Estate size increases for the next 25% of households, suggesting the influence of middle income households, but more than doubles for the next 15% of households. The most remarkable difference occurs between those households with the greatest wealth – mean net worth for those in the top 10% is 6.8 times larger than for those in the 75 – 89.9 percentiles. The comparable figure for 1989 (a mere 22 years ago) is 5.6 times, reflecting the increased concentration of wealth over the past two decades.

A detailed discussion of the implications of concentrated wealth holding in America is beyond the scope of this book, and authors like Reich have dealt thoughtfully and compellingly with the issue. However, a community's or a region's capacity to develop its assets, encourage its entrepreneurial talent, respond to external demand, and secure its economic future does depend on marshaling resources that can be invested strategically to spawn future rounds of wealth creation. It depends on capturing some component of the wealth that is created in that place, for the benefit of that place. And, to understand the wealth creation potential in a region will require some consideration of who owns both the assets and the wealth.

Figure 11 - Average U.S. Net Worth by Percentile of Net Worth



Source: Survey of Consumer Finances 2007

Final Thoughts We began this chapter with Warren Buffet's wisdom about the "regenerative power" of the American economy. Though the path has been full of cycles, the American economy has shown resilience and growth in both the historic and contemporary periods. And, we have seen that the factors that impact wealth creation in this country have been relatively consistent over time – getting a good education, obtaining a good job, earning a decent income, and building a nest egg through home ownership. While no one has the capacity to predict what America's future will be, recent trends suggest some fundamental restructuring of the national and world economies. It is unclear whether the patterns of the past will determine the outcomes of the future. With this as background, Chapter 3 presents four wealth creation scenarios of America's future. These scenarios provide a range of possibilities based on the history that forms their starting point and reasonable assumptions about how America responds and shapes its future. We offer these scenarios as conversation starters for the important decisions about community and regional futures that will be undertaken across America in the years ahead.

1 CNBC Transcript, Warren Buffet on Recession, Taxing the Rich and Capitalism's 'Regenerative Capacity', http://www.cnbc.com/id/39321868/CNBC_TRANSCRIPT_Warren_Buffett_on_Recession_Taxing_the_Rich_and_Capitalism_s_Regenerative_Capacity.

2 Abdul Ali, et al, 2009 Executive Report, Global Entrepreneurship Monitor, National Entrepreneurial Assessment for the United States of America, September 2010, www.gemconsortium.org.

3 Wealth and current net worth are used interchangeably in this book.

4 United States Gross Domestic Product time series data, http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries/US?display=graph.

5 Robert B. Reich, *After-Shock: The Next Economy and America's Future*, New York: Alfred A. Knopf, 2010, Chapter 6.

6 Tatyana P. Soubbotina with Katherine A. Sheram, *Beyond Economic Growth: Meeting the Challenges of Global Development*, The World Bank, Washington, D.C., 2000, http://www.worldbank.org/depweb/beyond/beyond.htm.

7 Robert Reich, p. 6.

8 Robert Reich, p. 52.

9 Robert Reich, p. 62.

10 The source for Figures 3-11 is Board of Governors of the Federal Reserve System, *The Survey of Consumer Finances*, 2007.

11 This is particularly true when first generation immigrant households are excluded.

12 Jennifer Cheeseman Day and Eric C. Newburger, *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings*, Special Studies, Current Population Reports, U.S. Census Bureau, July 2002, http://www.census.gov/prod/2002pubs/p23-210.pdf.

13 Cheeseman and Newburger, p. 3.

14 Abdul Ali, et al, *2009 Executive Report*, Global Entrepreneurship Monitor, National Entrepreneurial Assessment for the United States of America, September 2010, http://www.gemconsortium.org/document.aspx?id=1062.

15 This trend coincides with the declining power of unions in the country. In the mid-1950s, about 1/3 of workers were unionized; in 2010, fewer than 8% of private sector workers were unionized. (Robert Reich, pp. 45, 56).

16 For an excellent discussion about current and historical implications of wealth concentration in the U.S., read Robert Reich's *After-Shock*.

CHAPTER 3

Wealth Creation in America – The Next 50 Years

Past as Prologue?

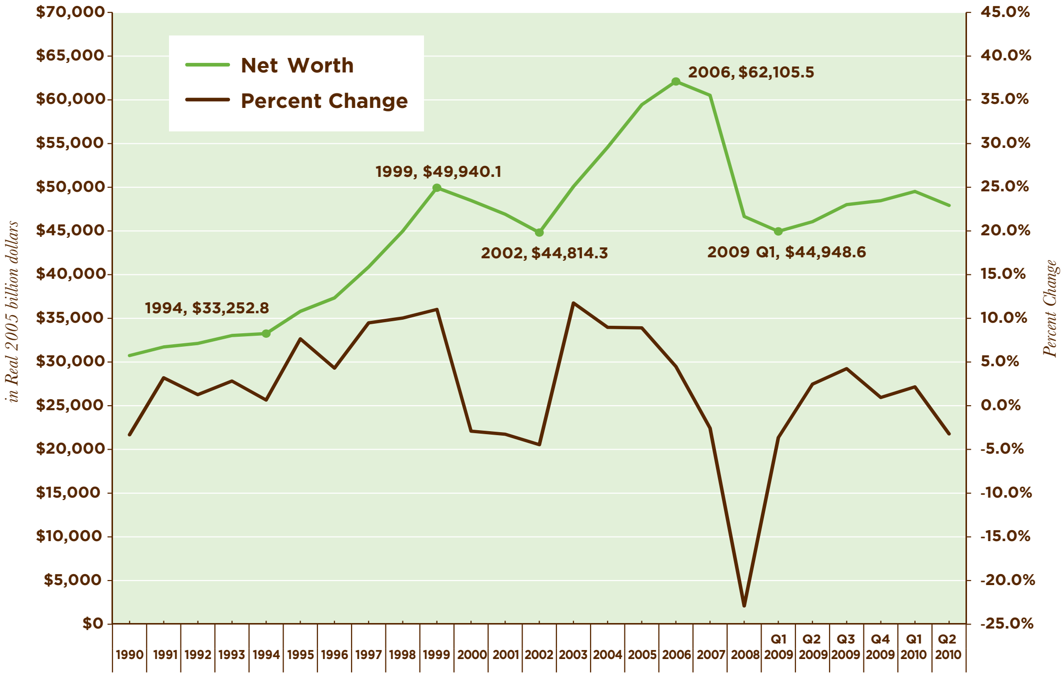
It is useful to begin a discussion of wealth creation in America over the next 50 years with a glimpse of the past (Figure 12). Average annual real change in household current net worth – wealth – for each decade of both the historic and contemporary periods was:

- **1945-50 3.47%**
- **1950-60 4.48%**
- **1960-70 4.09%**
- **1970-80 3.08%**
- **1980-90 3.47%**
- **1990-00 5.77%**
- **2000-2010 -0.12%**

Two primary conclusions spring from these data. One, tremendous household wealth was created in the U.S. between 1945 and 2000. Because of this strong foundation, almost $50 trillion of household wealth remains despite the loss of wealth resulting from the Great Recession (Figure 12). For communities and regions across the country, this pool of household wealth represents unrealized potential. If just 5% of the wealth created by American households were given back to communities through charitable gifting, around $2.5 trillion in community endowments could be realized over time. Endowments at this level of capitalization could generate about $125 billion in community grant making each year in perpetuity – providing critical resources to build future economic prosperity.

Two, this retrospective on American wealth has a less optimistic, more uncertain undercurrent. The average annualized change in household wealth over the historic period (1945 to 1990) was 3.71% in real or inflation adjusted dollars. During the contemporary period (1990 through 2010), the average annualized change in household wealth was 2.82%. The massive wealth creation of the 1990s was met with historic losses in the 2000s. The silver lining is that while overall rates were lower as compared to the historic period, they remained positive.

Figure 12 - Change in Household Current Net Worth, 1990-2010



Source: Board of Governors of the Federal Reserve System, Statistical Releases, Flow of Funds Accounts of the United States, December 9, 2010

In 1999, Boston College published a landmark study, *Millionaires in the Millennium*.[1] This study produced a range of estimates of estate wealth expected to transfer during the 1998 – 2052 period:

- **High Estimate - $136 trillion**
- **Medium Estimate - $73 trillion**
- **Low Estimate - $41 trillion**

While there had been earlier studies and estimates of America's transfer of wealth opportunity (TOW), Boston College's research set off a national dialogue focused on how this opportunity could be marshaled to support community betterment across the U.S. While the U.S. was recognized as a rich nation, the magnitude of the wealth transfer opportunity was hard to comprehend and accept. Ultimately, the low estimate of $41 trillion became generally accepted as a reasonable forecast of America's likely transfer of wealth opportunity over this period.

In response to Boston College's research, Nebraska became the first state to develop its own intergenerational transfer of wealth model. Working with Nebraska Community Foundation support, Don Macke (co-founder of the Center for Rural Entrepreneurship) developed the methodology to create scenarios of intergenerational wealth transfer at the state and county levels in the United States. For the first time, transfer of wealth (TOW) became a potential tool for rural communities and states to use as they imagined their futures. How these wealth transfer scenarios have been used by partners across the country is the subject of Chapter 4.

It has now been over a decade since Boston College completed and released its TOW estimates. As described in Chapter 2, the world has changed dramatically during that time and those changes suggest the need to develop more current and updated TOW estimates reflecting new realities and emerging trends. Given the breadth and ongoing importance of the Center's TOW work over the past decade,[2] we have created new national scenarios of household current net worth and transfer of wealth opportunity for the coming 50 years (2010 through 2060). This information can help communities recognize their TOW opportunity and build needed strategies to energize community give back and development.

Demographic Forecasts – The Foundation for TOW

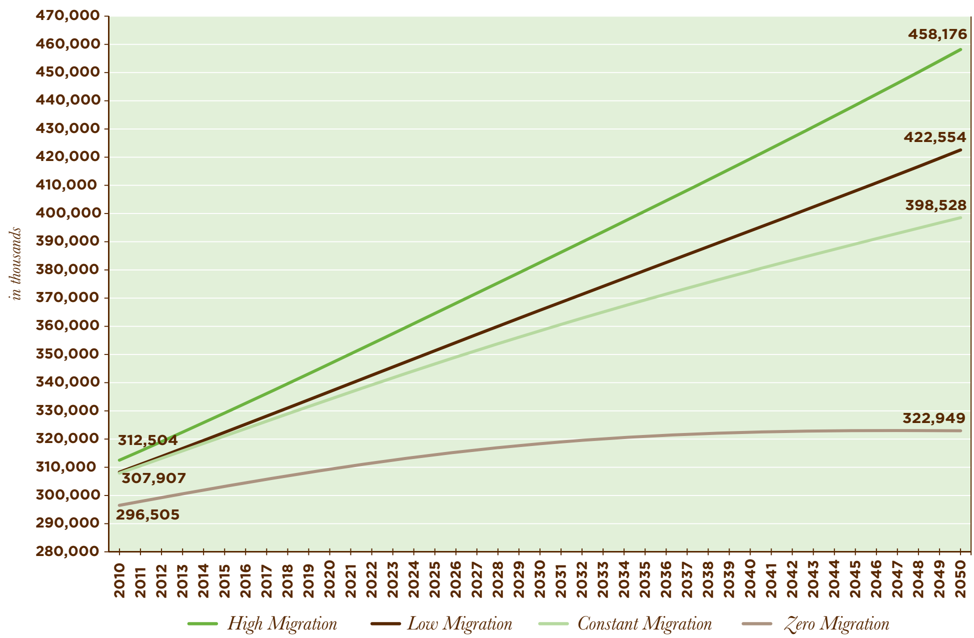
"The U.S. is getting bigger, older, and more diverse."[3] This observation by the Population Reference Bureau succinctly captures the importance of demographic forecasts in creating TOW scenarios. As described in Chapter 2, the age and household structures of the population (e.g., more young families associated with immigrant communities, aging rural communities) have important implications for wealth creation. Creating these demographic forecasts is the responsibility of the U.S. Census Bureau, charged by Congress to track America's population (i.e., conduct the Census). The information collected is widely used in government and business planning. To understand America's TOW opportunity, it is critical to grasp the demographic forecasts that underlie the model. The Census Bureau has published four forecasts based on America's natural population change (births and deaths) and new assumptions about immigration, a force that has had an important impact on America and its communities as a destination for those seeking greater personal freedom and economic opportunity.

The Census Bureau has prepared four population forecasts (2010 – 2050) that vary based on assumptions about migration and that are used as the basis for the Center's TOW analysis. Working from a 2010 population of 308,745,538, the forecasts are (Figure 13):

- **High Migration – resulting population of 458 million (+149 million)**
- **Low Migration – resulting population of 423 million (+114 million)**
- **Constant Migration – resulting population of 399 million (+90 million)**
- **Zero Migration – resulting population of 323 million (+14 million)**

The difference between the zero migration and high migration forecasts is 135 million, a significant increase of 42%. What America looks like in the future will depend upon which Census forecast comes closest to reality. In his 2010 book, *The Next Hundred Million: America in 2050*, Joel Kotkin states that "according to most conservative estimates, the United States by 2050 will be home to at least four hundred million people, roughly one hundred million more than live here today."[4] Kotkin's projections are in line with the constant/low migration Census estimates.

Figure 13 - U.S. Census Bureau Population Projections

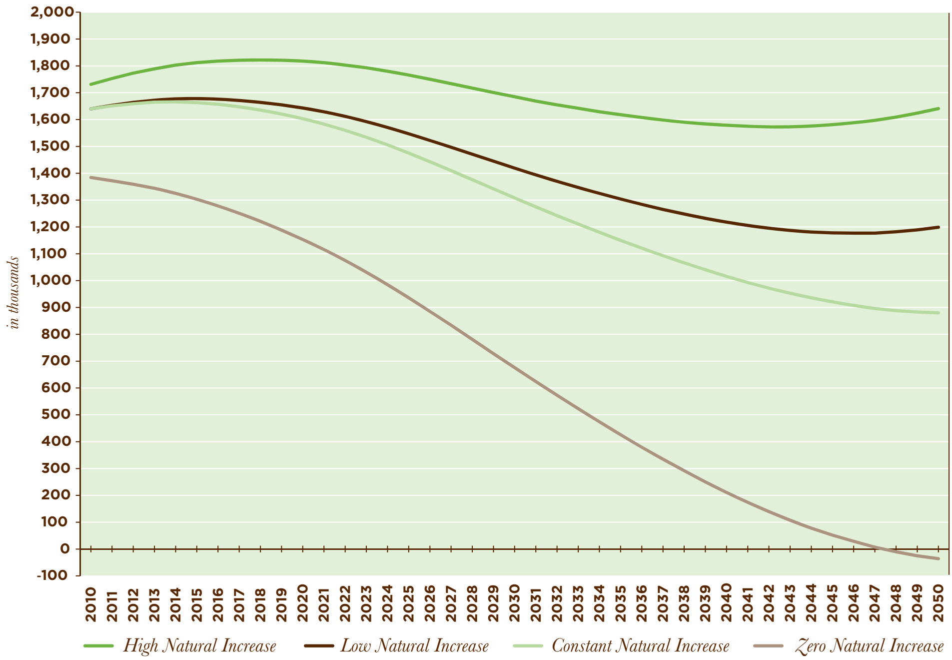


Source: U.S. Census Bureau, U.S. Population Projections, 2009 National Population Projections

While overall population increase will have important impacts on most aspects of American life – more crowding, more environmental strain, more competition for good jobs, etc. – its composition will have an impact on wealth creation. With higher rates of immigration, for example, increased numbers of young families would create a very different wealth profile than slower rates of immigration and a burgeoning population over the age of 65. To better understand the components of population forecasts, Figures 14, 15, and 16 show changes in the components of population estimates as assumptions about natural increase and migration change.

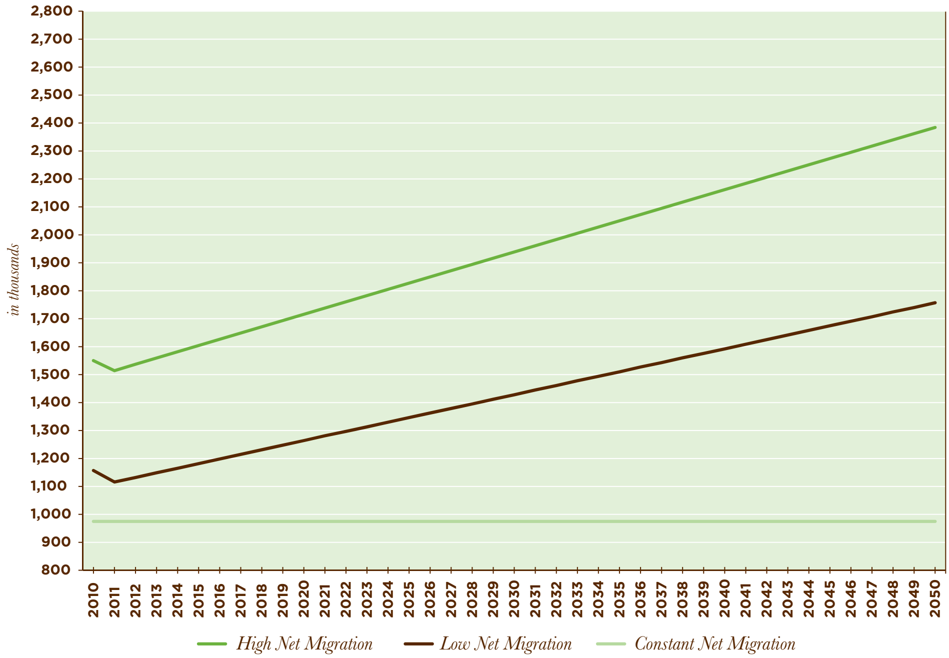
Figure 14 shows how America's natural population would change assuming different birth and death rates. Absent immigration, America will age rapidly and overall population growth would decline or stagnate. Figure 15 shows the impact of differential rates of immigration on the population forecasts. Addressing the immigration challenges the country faces, both in terms of legal and illegal immigration, will change not only the face of America but its size in the future.

Figure 14 - Natural Population Change, Census Projections



Source: U.S. Census Bureau, U.S. Population Projections, 2009 National Population Projections

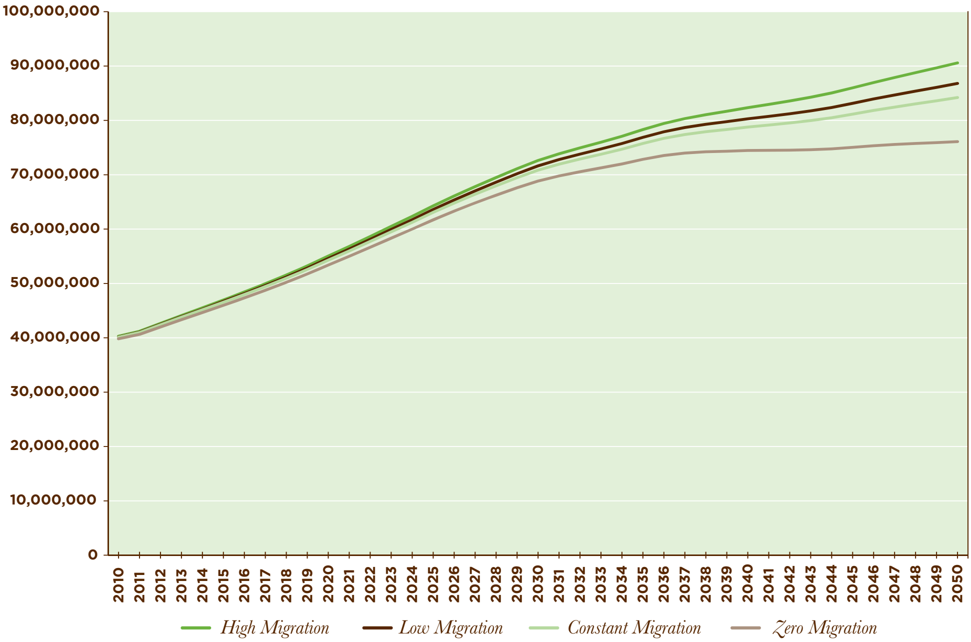
Figure 15 - Migration Population Change, Census Projections



Source: U.S. Census Bureau, U.S. Population Projections, 2009 National Population Projections

As described in Chapter 2, there is an important positive relationship between the age of household head and household wealth. On average, as we grow older, we accumulate assets and wealth status grows. Peak earnings and asset accumulation tend to occur in the last decade of most Americans' working lives – historically between 55 and 65 years of age. As a result, an important indicator of both household wealth and the opportunity for give back is the number of households headed by someone 65 years and older. Figure 16 shows the projected change in these older households for each of the four Census projections. In all cases, there is a significant increase in population over 65, the impact of the maturing Baby Boom generation. While not all of these older households will have wealth, let alone fall into the category of "high net worth individual," many will have estates to pass on to their heirs, and their communities. The transfer of wealth opportunity is expected to increase in part due to this changing demographic.

Figure 16 - Age 65 Plus Residents, Census Forecasts



Source: U.S. Census Bureau, U.S. Population Projections, 2009 National Population Projections

The Value of Visioning

Given the pace and scope of change in the world – consider all of the changes that have occurred in the past 50 years from space travel to the Internet – predicting the face of America in 50 years is a humbling activity. So many factors will contribute to creating our future and for every variable we recognize, there are additional factors that are emergent and less well understood. Major macro forces challenge our ability to quantify them and reflect them in scenarios of the future including:

> **Climate change and its impacts**
> **Continued globalization**
> **Declining stocks of fossil fuels**
> **War and other conflicts**
> **Political movements**
> **Corruption**
> **Changing social values and norms**
> **Heightened discrimination and hatred**

How do we begin to get our heads around the meaning of these powerful and dynamic forces? The reality is we cannot. Predicting how these macro social, cultural, environmental and political trends will shape our future is a tall order. Responding to these changes, however, is deeply rooted in the American experience. In *The Progressive Revolution: How the Best in America Came to Be*, Michael Lux documents the country's recurring commitment to and capacity for change that leads to better days.[5] From the depths of the Great Depression and post-war sacrifice grew the remarkable prosperity of the 1950s and 1960s. From the social blight of segregation came civil rights and greater equality of opportunity. While our union is not perfect and faces many challenges on the dawn of the next half-century, its regenerative powers – and our capacity to create a vision for the future – offer hope that a new period of growth, prosperity and community building are possible.

From the perspective of a local leader in Portland Oregon or Atwood Kansas (rural northwestern Kansas), why does all this matter? Why should community leaders care about macro trends that are beyond local control? From a development perspective, assessing the past and exploring the future are powerfully important. Communities and regions that invest in robust visioning and planning typically achieve greater success. In a study of 50 successful small towns from across the country, several common themes emerged including:

- Small towns with the most dramatic outcomes tend to be *proactive* and *future-oriented;* they *embrace change* and *assume risk*.
- Successful community economic development strategies are guided by a *broadly held local vision*.[6]

Over the past 10 years, communities and regions across the country have expressed remarkable interest in TOW research as a tool to support this visioning. The scenarios of the future underlying these estimates enable community leaders to do two important things fundamental to their future success:

- By exploring and understanding potential opportunities like TOW, communities are motivated to be pro-active. With the awareness and deeper insight that these scenarios engender, communities can see and seize opportunities for a better future.
- Community economic development has embraced an asset-based approach to development. Communities that invest in visioning and stra-

tegic planning to understand their assets and use that understanding to advance development strategies are more likely to succeed. TOW scenarios are one piece of this planning puzzle.[7]

Projecting TOW – Key Considerations

While there are many factors that could impact TOW scenarios, there are six key considerations that are paramount in shaping the results:

- > **Migration**
- > **Investments**
- > **Behavior**
- > **Health Care**
- > **Education**
- > **Age Distribution**

Future wealth creation, and the opportunity for give back over the coming decades, will depend in large part on how the country and its communities address these five factors. As a result, we have accounted for these factors in the new TOW scenarios.

Migration. Immigration is a topic of heated discussion from the halls of Congress to statehouses to individual communities. Fallout from the 9-11 attacks made legal migration (both temporary and permanent) more challenging. A weaker U.S. economy is less of a pull for immigrants. While not all communities face the challenges of illegal vs. legal immigration, they are responsible for creating an environment and a set of development policies that either welcome new residents or create barriers to such growth. This environment also impacts who chooses to stay and root in a community, and who leaves. As illustrated by the Census projections shared above, how the country and communities respond to both national and international migration will impact wealth creation and, ultimately, the kind of country and individual communities that emerge over the next 50 years. Because of the importance of this issue, and the lack of clarity about its resolution, we share a comparative case study of the Ontario province in Canada and the state of Michigan on the following page.

Case Study: Ontario and Michigan

In Economic Development Quarterly, A. J. Jacobs shared comparative research on Ontario, Canada and Michigan, USA.* Historically, these two places are similar in their development, culture and economic base. Both regions have economies that are larger than many countries. However, looking at the period from 1980-2006, Jacobs presents starkly different pictures of each region's economic performance. The table below includes data from the study that show while both regions suffered manufacturing losses over the period, Ontario saw continued and strong population growth and overall employment growth.

Indicator	Michigan	Ontario
Population Change	**+833,565 / +9.0%**	**+3,535,175 / +40.99%**
Employment Change	**+910,353 / +31.54%**	**+1,803.90 / +50.06%**
Manufacturing Job Change	**-437,085 / -40.76%**	**-93,143 / -10.24%**

The tales of Detroit and Toronto (central cities in each region) are even more dramatic with massive depopulation in Detroit and continued growth in Toronto. This disparity occurred even though both Detroit and Toronto had nearly equal absolute losses of manufacturing jobs.

Indicator	Detroit	Toronto
Population Change	**-332,247 / -27.61%**	**+365,886 / +17.12%**
Employment Change	**-219,879 / -39.12%**	**+173,042 / +15.68%**
Manufacturing Job Change	**-90,653 / -71.31%**	**-90,651 / -39.34%**

Explaining differences in economic outcomes can be challenging, but the author points to three factors that contribute to Ontario's relative success.

Immigration. Between 1980 and 2006, Michigan welcomed 106,437 immigrants while Ontario welcomed nearly 2.1 million. The introduction of motivated and talented immigrants fueled economic and demographic renewal in Ontario, but was largely absent as a force for change in Michigan.

Regionalism. In the United States, including Michigan, economic development largely devolves to local governments and communities.

Case Study: Ontario and Michigan (continued)

America's commitment to regional economic development has eroded as regional development infrastructure has been starved of investment by the states. Economic development efforts are not only fractured across communities, but within communities where local development corporations, tourism boards, convention centers, chambers and main street programs all compete for limited local economic development funding. In contrast, regional planning and economic development are promoted and actively supported in Canada and by the Ontario provincial government.

Incentives. Ontario and Canada are more restrictive in the use of public funds for business attraction and competition, including the use of incentives such as tax abatements. Jacobs suggests that the lack of incentive-based expenditures in Ontario allows these public funds to be used for education, infrastructure and workforce development contributing to more sustainable economic development.

While other factors clearly are at play, this research illustrates how immigration can be a real game changer. Smart immigration policy and the attraction of human talent can lead to economic innovation, renewal and new wealth creation. The U.S. Census, in basing their four population forecasts on varying assumptions about immigration, reinforces the powerful role this factor plays in determining America's future.

*A.J. Jacobs, The Impacts of Variations in Development Context on Employment Growth: A Comparison of Central Cities in Michigan and Ontario, 1980-2006, Economic Development Quarterly, November 2009, 23: 351-371.

Investments. Even in the best of times, individuals, organizations, communities and the country have strategic choices to make. In a time of limited resources and economic challenges, these strategic choices take on even greater significance. Decisions to invest in wealth creating strategies vs. servicing debt or increasing consumer spending will impact America's future and its wealth creating potential. Modest shifts from spending to investing can move America to new cycles of greater prosperity.

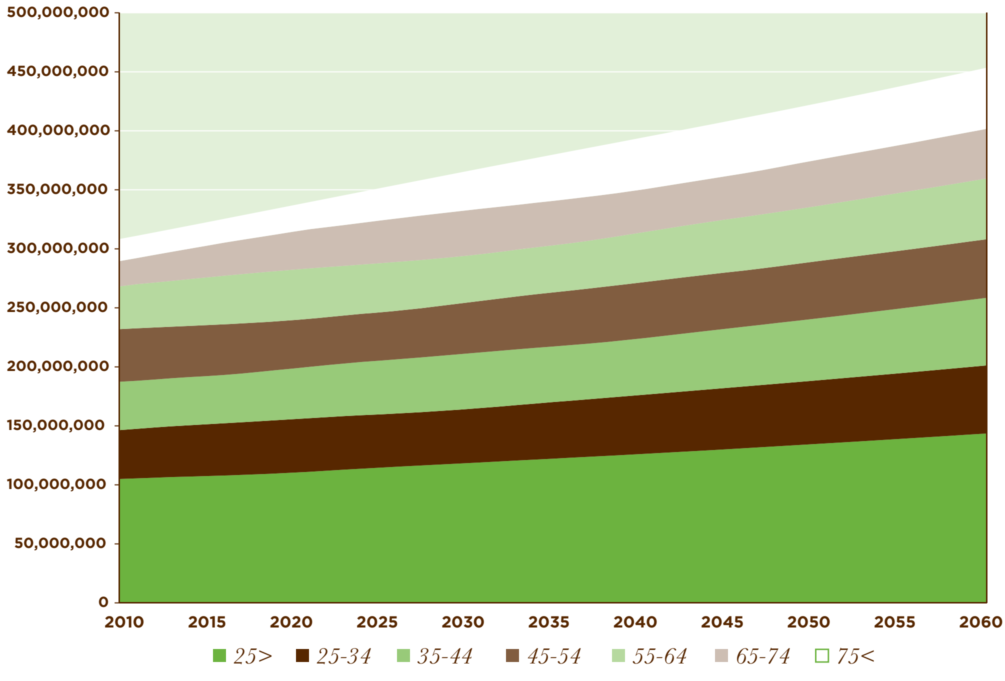
Behavior. Individual and household behavior will also have an important impact on asset accumulation and wealth formation. Public and private policies that encourage wealth building behaviors (e.g., Individual Development Accounts that encourage savings, first time home buyer tax credits) have an influence on individual behavior. Following the Great Depression, a culture of thrift influenced several generations and impacted wealth formation trends. During the period Reich calls "The Great Prosperity" (1947-1975), middle class Americans saved roughly 9% of annual after tax income; in 2008, the rate was only 2.6%.[8] The degree to which Americans in the 21st century work hard, save and invest wisely will shape overall wealth creation and the number of households with the capacity to give back to their communities.

Health Care. Health care access and cost have become significant concerns for American households, and the economy. Spending on health care in the U.S. has consumed an increasing share of economic activity over time.[9] For individuals, health insurance and out-of-pocket costs consume a growing share of annual income, and the financial risk associated with lack of insurance coverage creates stress on both individuals and the system. Health care spending averaged an annual increase of almost 8% for 2000-2005 – twice as fast as personal income grew during that same period.[10] As a result, growing health care costs squeeze discretionary income and limit the capacity of households to acquire more permanent assets. How America ultimately addresses health care spending relative to personal income will directly impact wealth formation in the decades ahead.

Education. Education is a two-edged sword with respect to household wealth. As described in Chapter 2, education, particularly specialized, higher quality and advanced education, positively influences one's earning power and the potential for wealth formation. At the same time, the cost of education has risen, and continues to rise, rapidly. According to a 2008 report, "the financial burden of paying for college costs has increased substantially, particularly for low- and middle-income families, even when scholarships and grants are taken into account."[11] These cost increases have outpaced income growth and even health care costs. Many in the Baby Boom generation, and likely those that follow, face a dilemma – invest for retirement or invest in their children's education. How America addresses higher education access and affordability will also shape wealth formation in the coming 50 years.

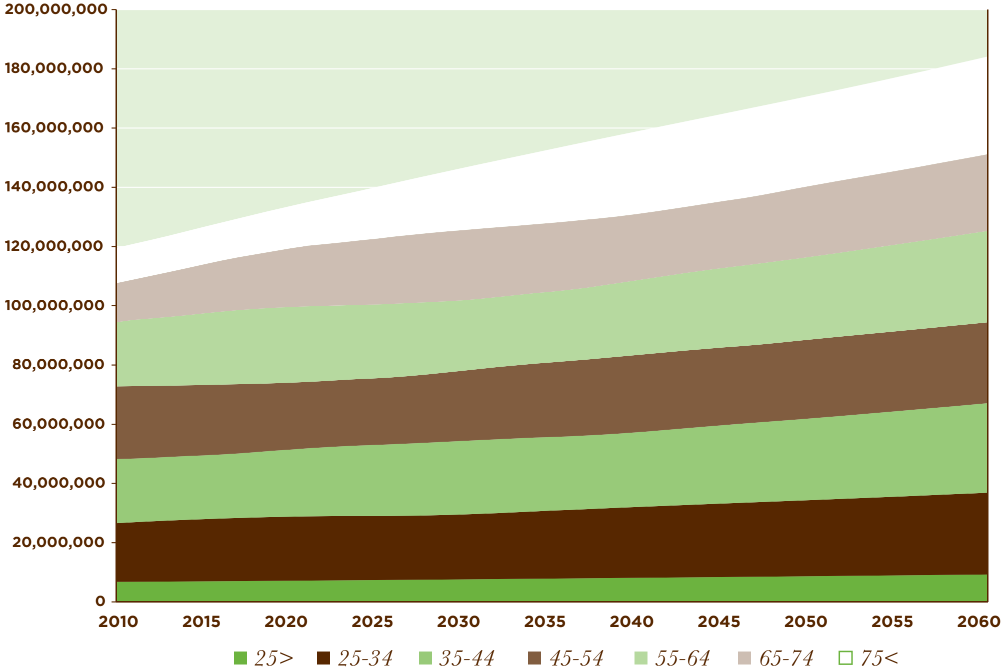
Age Distribution. Changes in the age distribution of the overall population (Figure 17) and of households (Figure 18) over time will have an impact on wealth creation.[12] Looking over the next 50 years, the two fastest growing demographic segments are the under 25 years of age group (primarily due to the younger families and higher birth rates associated with a growing immigrant population) and those over 65 (primarily due to embedded aging population associated with the Baby Boom generation). These changes create a constructive tension for communities and regions. A growing aging population will increase the size and potential for wealth formation and give back. A rising younger population may possess less wealth but may bring the potential for demographic renewal and economic creativity.

Figure 17 - Population Distribution by Age



Source: U.S. Census Bureau, U.S. Population Projections, 2009 National Population Projections; Center for Rural Entrepreneurship, 2010

Figure 18 - Household Distribution by Age

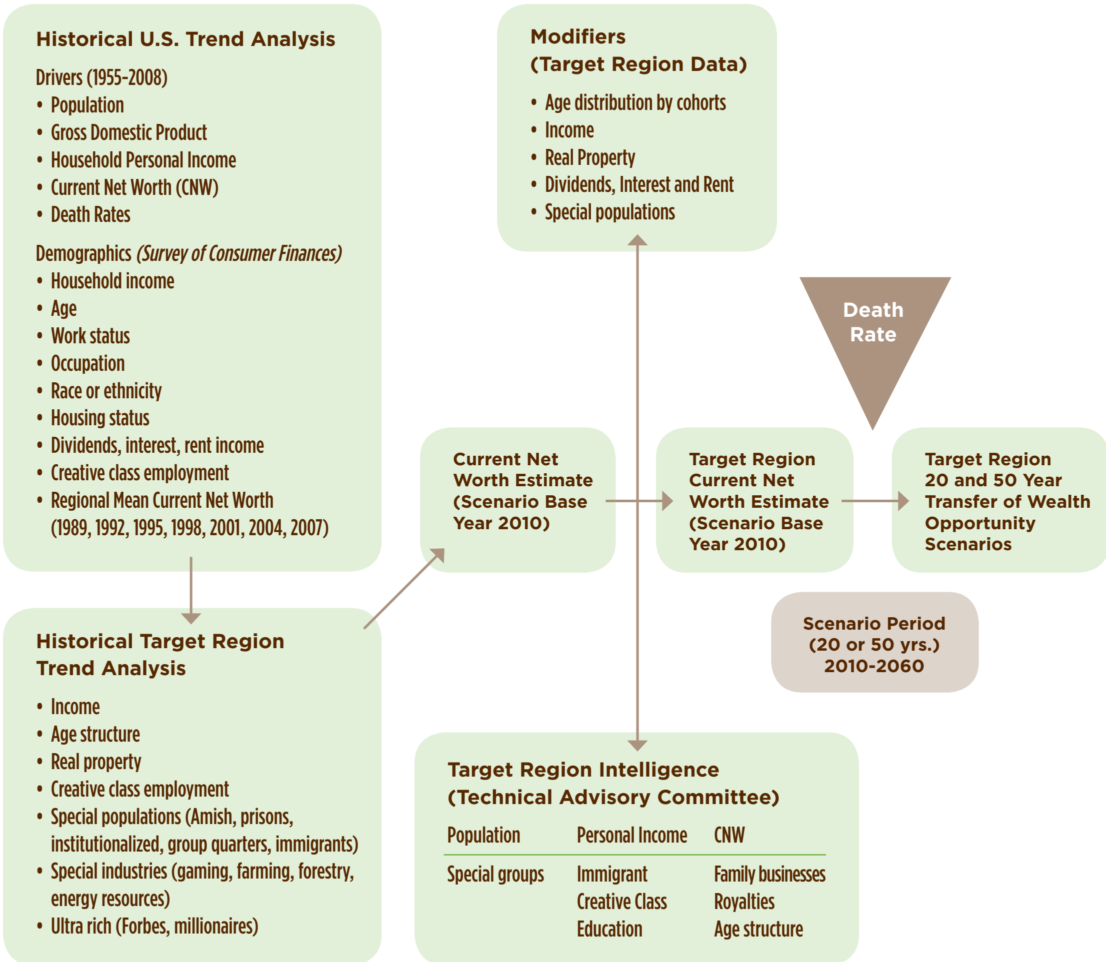


Source: U.S. Census Bureau, U.S. Population Projections, 2009 National Population Projections; Center for Rural Entrepreneurship, 2010

These six key considerations factor into our scenarios of future American wealth and TOW opportunity. In response, the scenarios presented are more conservative compared to both the historic and contemporary periods. Our assumption is that the country will address these core issues in positive ways, but that households will continue to be challenged to accumulate assets and form wealth as compared to the past.

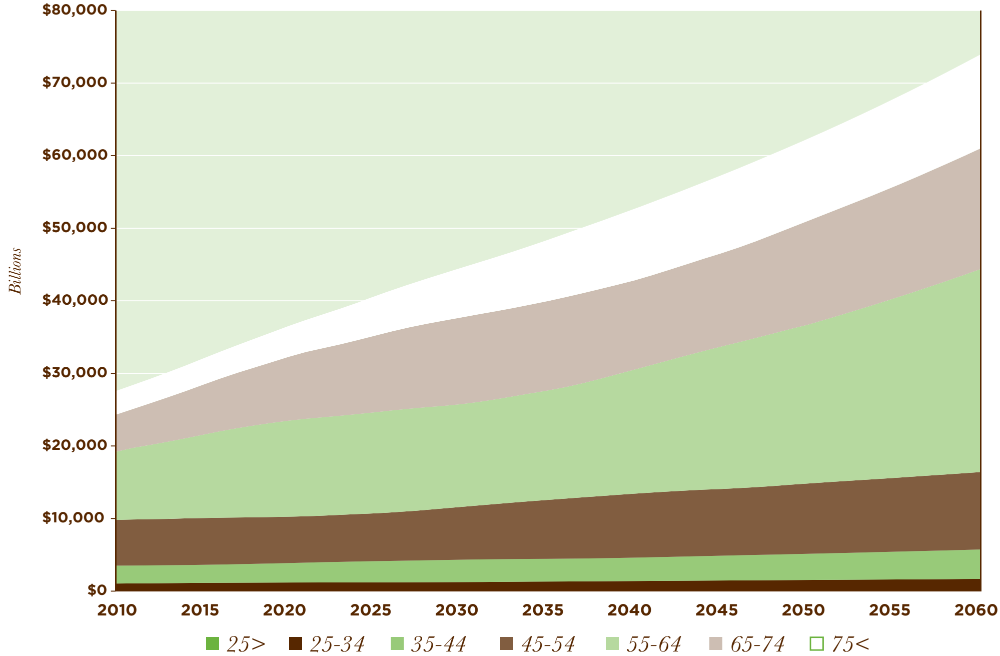
Scenarios of Future American Wealth

As part of transfer of wealth scenario modeling, we have created a schematic representation of this process as a tool for better understanding its primary elements. This graphic reflects the key drivers of wealth creation that were discussed earlier in this book, as well as the demographic factors that affect wealth creation for individuals and their regions over time.



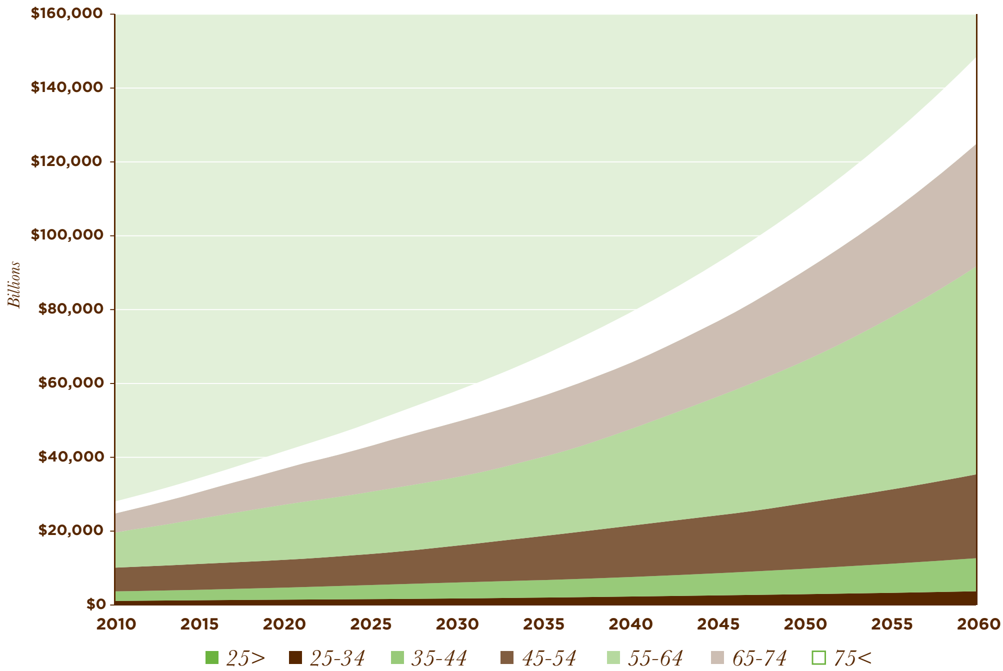
Using historical trends and current data reflected in the schematic, the Center developed scenarios of American household net worth for 2010 through 2060. These scenarios are tied to the Census Bureau's four population projections, extended through 2060 (Figures 19-22). The impact of different population forecasts on the potential increase in American household wealth over this period is dramatic. Assuming zero migration, CNW increases from $30 trillion in 2010 to $74 trillion in 2060; assuming high migration, CNW increases from $30 trillion to $276 trillion – a difference of nearly four to one. American wealth and the potential for give back look very different depending upon which of these scenarios comes closest to reality.

Figure 19 - Scenario 1 - CNW Distribution by Age Assuming Zero Migration



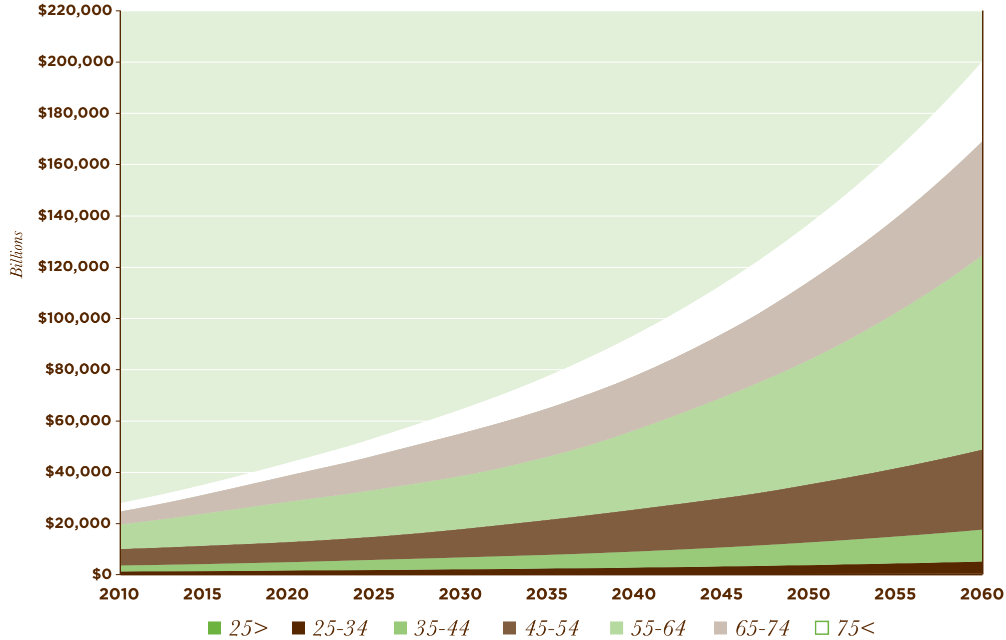
Source: Center for Rural Entrepreneurship, 2010

Figure 20 - Scenario 2 - CNW Distribution by Age Assuming Constant Migration



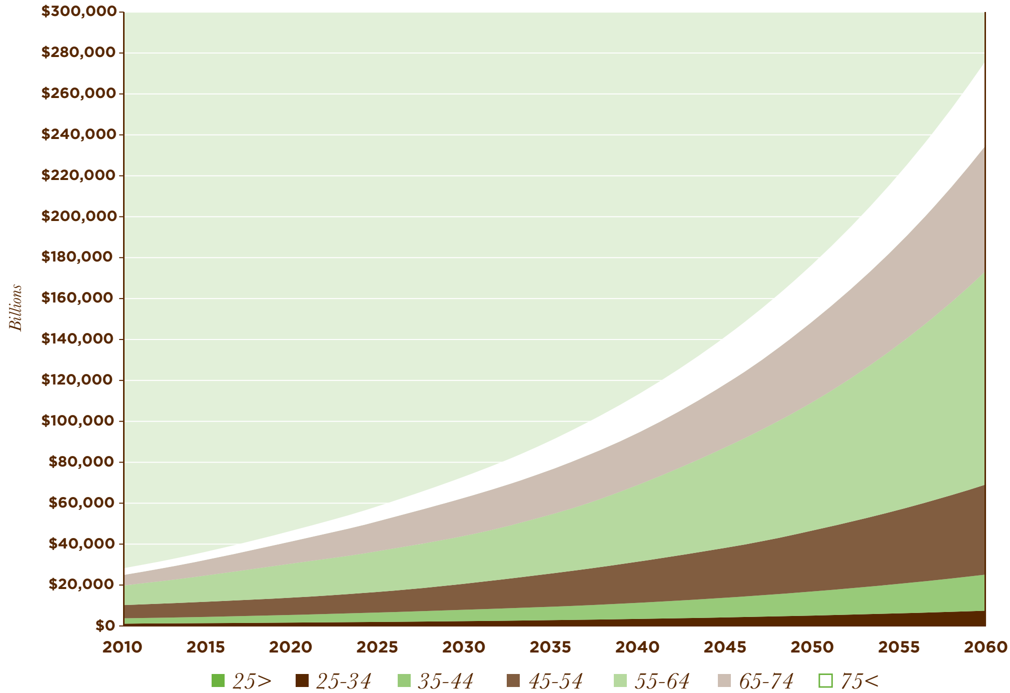
Source: Center for Rural Entrepreneurship, 2010

Figure 21 - Scenario 3 - CNW Distribution by Age Assuming Low Migration



Source: Center for Rural Entrepreneurship, 2010

Figure 22 - Scenario 4 - CNW Distribution by Age Assuming High Migration



Source: Center for Rural Entrepreneurship, 2010

Considering the low migration population forecast, American household current net worth will rise from just under $30 trillion in 2010 to nearly $200 trillion in 2060. This represents an increase of $170 trillion or more than a five-fold increase over this five decade period. The implications for community give back are significant. When the Boston College forecasts were made over 10 years ago, there were references to the *golden age of philanthropy*. These current scenarios, and the transfer of wealth scenarios presented below, suggest that America's golden age of philanthropic opportunity is and will be with us throughout the first half of this century.

Transfer of Wealth Scenarios

After detailed analysis, the Center TOW research team determined that the low migration population forecast by the U.S. Census Bureau is most likely. As a result, this forecast is the foundation for the 2010 household current net worth and transfer of wealth opportunity scenarios presented in Table 1.[13] These scenarios represent a *likely future* for wealth and potential wealth transfer looking out over the next 50 years. For most of us, however, a 50 year time horizon is challenging to contemplate; it represents the better part of a generation. To help community leaders and residents better embrace the TOW scenarios as a tool for visioning, we share 20 year scenarios, as we have done below.

Over the next 20 years (2010-2030), we estimate that current net worth – *wealth* – of America's households will rise from $28.1 trillion to $65.2 trillion. The corresponding *transfer of wealth opportunity* – the amount that *could be passed on* from one generation to the next – is a remarkable $15.4 trillion over this same period. If just 5% of the 20 year TOW opportunity were captured into community endowments across America, $770 billion could be added to our nation's philanthropic coffers. This level of capitalization in endowments could support a 5% annual payout rate over time, generating over $38 billion for community betterment. This level of resource in the hands of community leaders across America holds the promise of changing lives and strengthening communities from tiny Mullen, Nebraska to Brooklyn, New York.

Table 1 - 2010 Center Transfer of Wealth (TOW) Scenarios

Years	CNW Current Net Worth	TOW Transfer of Wealth	5% Capture	5% Payout
	$ Trillions	*$ Trillions*	*$ Billions*	*$ Billions*
10 Year	**$44.3**	**$6.2**	**$310**	**$15.5**
20 Year	**$65.2**	**$15.4**	**$770**	**$38.5**
30 Year	**$94.3**	**$29.0**	**$1,450**	**$72.5**
40 Year	**$137.3**	**$48.2**	**$2,410**	**$120.5**
50 Year	**$195.7**	**$75.2**	**$3,760**	**$188.0**

Source: Center for Rural Entrepreneurship, 2010

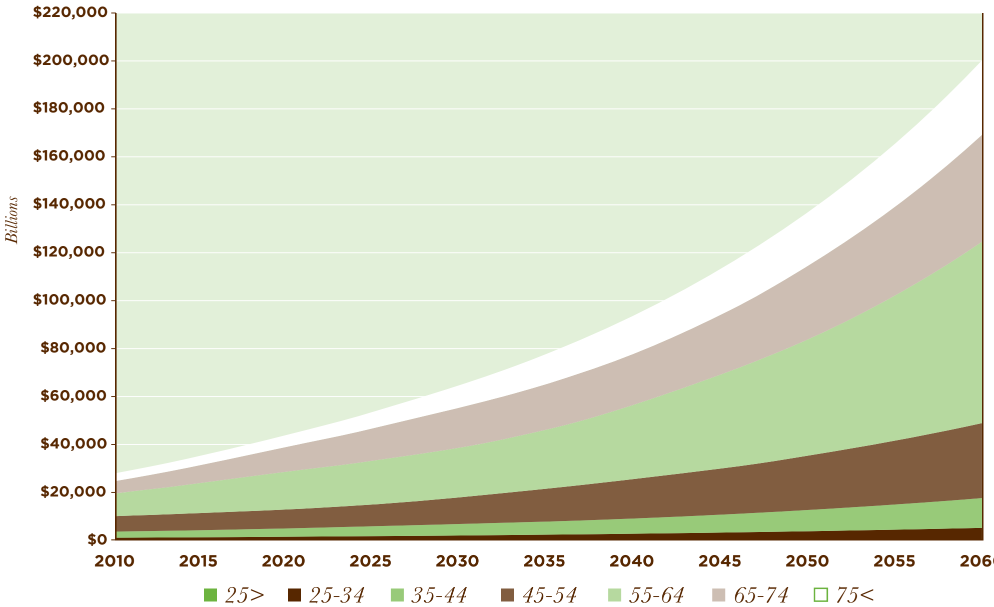
The transfer of wealth opportunity represented by these scenarios is just that – an opportunity. TOW becomes a resource for communities and regions when some component of that wealth transfer – for example, the 5% capture target – is realized through donor development and give back. To realize this potential requires understanding how wealth and the transfer of wealth are distributed across age cohorts in the country.

Figures 23 and 24 demonstrate an interesting dynamic in terms of who is accruing wealth and who is transferring wealth. Figure 23 shows that we accrue wealth particularly during the latter part of our working lives, between 55 and 64 and even up through the early 70s. That wealth is then transferred as we age and pass on, with the 75 plus age cohort responsible for more than half of the wealth that is transferred. However, for community leaders who recognize the potential behind the transfer of wealth and want to develop strategies for tapping it, these figures suggest two important issues and opportunities.

- If communities, regions and even states do nothing to cultivate those among the older generation (75 and older) who are making transfer of wealth decisions, the potential to capture even a small portion of that wealth will be gone. This loss is especially likely in more rural places, where outmigration of youth and population loss make it much less likely that heirs are living in the places they were raised (this point is further developed in Chapter 4).
- Younger people, particularly those aged 55-64 and even those aged 45-54, are building wealth and may be open to considering how that wealth could benefit the community. If engaged early and given a compelling reason to support community betterment, these individu-

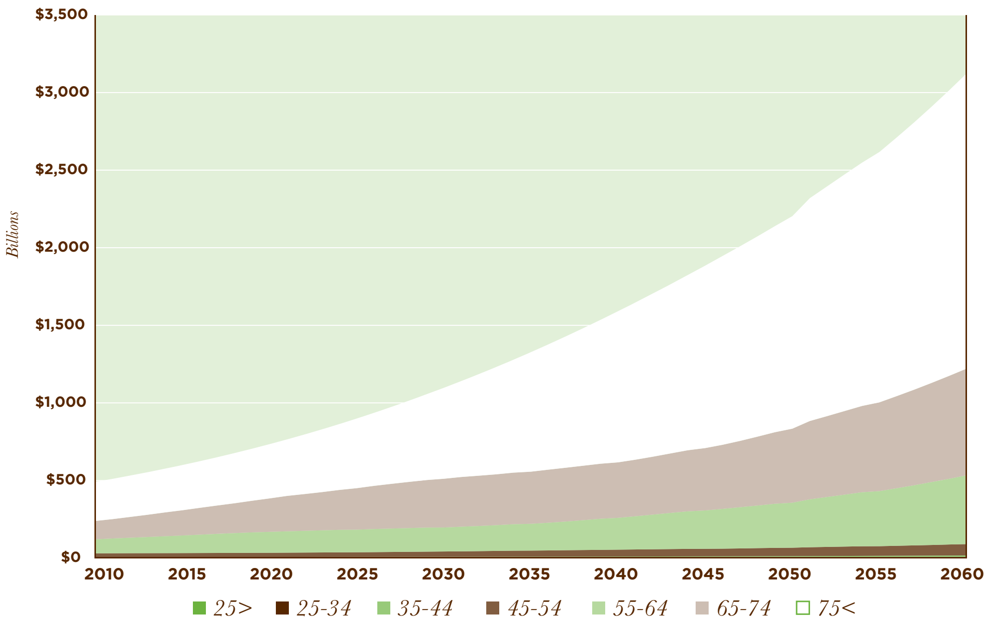
als could become small donors today and endowment builders tomorrow. The key is to build relationships with these individuals and engage them in decision making about the community's future.

Figure 23 - Net Worth Distribution by Age



Source: Center for Rural Entrepreneurship, 2010

Figure 24 - Transfer of Wealth Distribution by Age



Source: Center for Rural Entrepreneurship, 2010

Final Thoughts

The scenarios presented here are not *predictions* of what the level of give back in the country will be. The entire point of TOW analysis is to help communities understand the wealth give back potential that exists and then create or adopt strategies that are most likely to help them move from the wealth transfer opportunity to the realization of wealth capture. These 2010 TOW scenarios will be used to benchmark future state, regional and local TOW studies that communities can use to make these strategic decisions. Based on our experience working with organizations across the country using the TOW analysis in this strategic way, we know that effective strategies can yield real and increased give back. The next chapter shares insights from the Center's 10 years of TOW research, analysis and use in the field. This review will provide insight into the reality of America's community give back opportunity.

Description of Methodology Used for Local, Regional and State TOW Analysis

Since our first TOW study in Nebraska, this methodology has been developed and refined to provide scenarios that can be the starting point of fruitful discussions about wealth transfer and its potential as a source of funding for community development. It is important to highlight several points about this model:

- The TOW model produces **scenarios** based on projections of likely futures, not predictions or forecasts of actual future outcomes. **Scenarios** are driven by key assumptions about the future, based on historical trends. In all cases, we work to create conservative **scenarios** that represent realistic estimates of TOW opportunities. The numbers generated are not predictive – indicating what WILL result 10 or 20 or 50 years from now – but rather demonstrate potential or a likely future given past and current trends. They are not designed to dictate policy but rather to provoke strategic discussions driven by a simple question – what if the community were able to capture just 5% of the wealth that will transfer between generations over the next 10, 20, or 50 years to support investments in community betterment?

- The first consideration in any TOW study is the establishment of a base year for analysis. With any TOW analysis, we consider 50 years of historical indicators (extending back to the post-World War II period and up through the most recent year for which an adequate number of adjusted indicators necessary to establish current net worth are available) and project estimates 10 years (to 2020), 20 years (to 2030) and 50 years (to 2060) into the future. Current analysis base year is 2010.
- The analysis is conducted in "inflation adjusted dollars." In other words, these are real dollars – a dollar in 2030 is worth the same as a dollar in 2005.

Specific steps in the TOW scenario methodology include the following.

Step 1 – Estimating Current Net Worth

The TOW analysis uses a data series produced by the U.S. Federal Reserve, the Survey of Consumer Finances report, to match demographic characteristics for the study region with key national indicators. Every three years since the 1980s, the U.S. Federal Reserve has commissioned an extensive survey of household finances in the United States. This report provides detailed U.S. asset and liability holdings by key demographic characteristics (e.g., age of household, income of household, race, employment type, region, and housing status).

The next step in estimating current net worth is to bring the estimates of state and county net worth to base year levels. To inflate the estimates of current net worth, we use the U.S. Federal Reserve's Flow of Funds Accounts of the United States. This report is the definitive national accounting of household current net worth in the United States on a year-to-year basis. Since 1945, there has been an overall positive trend in wealth creation, measured by current net worth, in the U.S. A more contemporary view of wealth creation (2000 – 2009) shows cyclical variation along this positive trend line associated with wealth erosion and subsequent recovery during the recessions of 2001 and 2007 – 2009.

Customization. Final current net worth estimates for the base year are customized for each study area based on the relationships between a number of key indicators at the state and county levels as compared to the national level. Primary indicators include: (a) dividend, interest and rent income, (b) income characteristics, (c) age characteristics, (d) concentrations of creative class employment, (e) concentrations of business ownership, and (f) market valuation of real property by class.

A number of additional indicators are used to customize CNW estimates, including the following. Many of these factors are also key considerations in building assumptions for TOW projections.

- Adjacency to high amenity areas, second home development and retirees
- Pockets of the ultra-rich (locals or newcomers whose wealth puts them in the top 1% in the U.S.)
- Effects of public lands – federal, state and local
- Pockets of high corporate stock ownership
- Specific new economic development projects
- Effects of the gaming industry, if any
- Behavioral patterns of savings and investing
- Effects of new immigrants and repatriation of earnings
- Areas of future population boom, bust, or plateau
- Public housing impacts
- Institutionalized populations (e.g., prisons, care homes, military)

Step 2 – Building Demographic/Population Models

For each study region, we build a population model for the scenario period and an economic forecasting model. We employ existing and available population forecasts and, if not available, build population forecasts through the scenario period. We rely on a set of historic relationships between drivers of wealth and household current net worth. There are strong and historic relationships between these drivers, defined as changes in population, personal income, and gross domestic product, and change in household current net worth. We employ these relationships along with demographic and economic forecasts to project household CNW over time. Again, we generate relatively conservative projections benchmarked to the low-range CNW and low TOW projection for the U.S.

Step 3 – Discounting Assets

Not all assets are equal with respect to TOW opportunity. Many assets will not be available for give back either to heirs, charities or communities.

We employ a discounting methodology to reduce the value of our CNW projections and generate a TOW estimate that more closely represents the likely TOW opportunity for each area. This discounting can reduce gross CNW by 50% to 75% depending upon the demographics of households in a particular place. Again, the discounting allows us to estimate TOW that is truly available for potential give back. For example, CNW might be discounted for the following:

- Assets that depreciate quickly such as automobiles or household goods
- Assets where future value is hard to estimate such as collections, art and jewelry
- Future income associated with defined benefits with no cash value
- Closely-held assets including farms, ranches and family businesses
- Assets of lower-income households that are likely to be consumed during retirement, leaving limited estates available for give back.

Step 4 – Timing of TOW Release

The next step is to estimate the timing of TOW release. Projected deaths are the primary indicator of TOW release since most estate transfers occur upon death. Demographic projections estimate the number of deaths throughout the analysis time period and these percentages are used to estimate TOW release.

Step 5 – Review and Verification

To ensure that we have captured all material considerations, we undertake a careful review and verification process so that our TOW scenarios reflect each state or region's unique circumstances and realities. We work with a Technical Advisory Committee in each study region throughout the TOW analysis process. The Technical Advisory Committee helps identify unique factors that would impact estimates of either CNW or TOW.

1 Paul G. Schervish and John J. Havens, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Social Welfare Research Institute, Boston College, October 1999.

2 Since the initial Nebraska TOW study, the Center has conducted or contributed to TOW studies in 32 geographies across the country.

3 Paola Scommegna, U.S. Growing Bigger, Older, and More Diverse. Population Reference Bureau, April 2004, http://www.prb.org/Articles/2004/USGrowingBiggerOlderandMoreDiverse.aspx.

4 Joel Kotkin, *The Next Hundred Million: America in 2050*, New York: The Penguin Press, 2010.

5 Michael Lux, *The Progressive Revolution: How the Best in America Came to Be*, New York: John Wiley & Sons, 2009.

6 Will Lambe, *Small Towns, Big Ideas*, The University of North Carolina at Chapel Hill School of Government and the North Carolina Rural Economic Development Center, 2008, http://www.sog.unc.edu/programs/cednc/stbi/.

7 The experience of the Heartland Center for Leadership Development (www.heartlandcenter.info) supports these views. Two of their most widely used resources help communities understand the "why" and "how" of intentional community building – Vicki Luther and Mary Emery, *Your Field Guide to Community Building,* 2003 and Vicki Luther and Milan Wall, *Clues to Rural Community Survival*, 2008.

8 Robert Reich, p. 62.

9 The Henry J. Kaiser Family Foundation, *Health Care Costs: A Primer,* August 2007, http://www.kff.org/insurance/upload/7670.pdf.

10 Kaiser Family Foundation, p. 3.

11 The National Center for Public Policy and Higher Education, *Measuring Up 2008: The National Report Card on Higher Education*, 2008, http://measuringup2008.highereducation.org/print/NCPPHEMUNationalRpt.pdf.

12 In order to calculate 50 year TOW scenarios, the Census population projection trend lines were extended through 2060.

13 A brief description of the methodology used to generate regional TOW scenarios is included at the end of this chapter.

CHAPTER 4

Review of 10 Years of Transfer of Wealth Studies

Past as Prologue?

Updated scenarios of the transfer of wealth opportunity in the U.S., shared in Chapter 3, suggest that in 2060 – over 50 years – $75 trillion will be passed from one generation to the next. This figure, like the earlier Boston College estimates, represents *potential wealth transfer,* wealth that might be used to capitalize the next generation of entrepreneurs, to finance a new generation of farmers, to ensure the education of grandchildren, to build a stronger financial future for churches, alma maters, and favored charities. But, what does it mean for communities and regions across the country, especially rural places? How can the *transfer of wealth opportunity* translate into a *development resource opportunity* for these places?

Over the past 10 years, the Center has conducted or contributed to transfer of wealth studies in 32 different geographies, over 1,000 parishes and counties, ranging from select parishes in Louisiana to the borough of Brooklyn, New York to the state of Maine.[1] In each case, the research was done in partnership with a place-based organization, most often a community foundation or philanthropic alliance. The scenarios developed show that all counties – even the poorest counties in Appalachia – have wealth that will be transferred over the next 50 years. The size of this transfer of wealth opportunity ranges from about $10 million in a sparsely populated western county (2009 population estimate = 612) to $202 billion in a large urbanized county in the mid-west (2009 population estimate = 721,000). Table 2 presents summary data from these studies to demonstrate the wealth transfer and wealth capture *potential* across these different geographies.

Several observations based on these summary data stand out. One, the size of the wealth transfer opportunity generally increases as you move from less populous and more rural states to those with larger populations and important urban centers (e.g., Chicago, Philadelphia, Cleveland/Columbus, and Detroit). But, there are exceptions. Kentucky's 50 year TOW is well above the median for the states included here yet over 40% of its population is considered rural and eastern Kentucky contains some of the most persistently poor counties in the country.

Two, even in states with more limited TOW potential, the implications of capturing just 5% of the anticipated transfer are significant. South Dakota counties, for example, could generate an additional $281 million dollars in philanthropic support for community economic development by capturing 5% of the anticipated 10 year transfer of wealth. These are locally grown resources that will likely play an increasingly important role in development funding given the significant and long term challenges that federal and state governments are facing.

While the data are interesting, what really matters is how organizations use the TOW analysis as a strategic decision making tool. The rest of this chapter will highlight ways in which a sampling of our place-based partners have, among other activities, created new statewide campaigns and donor development strategies using the TOW analysis.

Table 2 - Summary of TOW Study Results[2]

Geography	50 Year TOW	10 Year TOW	5% Capture (10 Year TOW)
	$ Billions	*$ Billions*	*$ Millions*
STATE STUDIES			
South Dakota (66 counties)	$38	$6	$281
Wyoming (23 counties)	$60	$12	$597
Montana (56 counties)	$63	$9	$442
Vermont (statewide)	$67	$9	$465
Maine (16 counties)	$252	$26	$1,300
Nebraska (93 counties)	$258	$52	$2,580
Nevada (17 counties)	$383	$32	$1,623
Indiana (92 counties)	$415	$66	$3,281
Wisconsin (72 counties)	$687	$105	$5,300
Kentucky (120 counties)	$707	$72	$3,596
Michigan (83 counties)	$972	$141	$7,031
Ohio (88 counties)	$1,073	$161	$8,027
Pennsylvania (67 counties)	$1,165	$193	$9,669
Illinois (102 counties)	$1,357	$182	$9,115
SUB-STATE REGIONS			
Western North Dakota (16 counties)	$3**	NA	NA
San Luis Valley (6 counties)	$4	$0.5	$23
Northern California/Oregon (4 counties)	$16	$2	$83
Louisiana Region (13 parishes)	$81	$7	$371
Northeastern New York (10 counties)	$99	$14	$683
Rochester New York Area (9 counties)	$135	$14	$695
North Carolina (85 rural counties)	$903	$78	$3,905
URBAN AREAS			
Brooklyn, New York	$61*	$28	$1,383
Los Angeles, California	***	***	***
San Luis Obispo, California	$62	$7	$344
San Diego, California	$202**	$62	$3,099

**20 year TOW **25 year TOW ***This study was completed but not released at the time this book was written.*

Roots in the Heartland

The 2001 transfer of wealth study in Nebraska marked the first attempt to apply the Boston College methodology to the state and county levels. The results were both alarming and encouraging (Figure 25). What was encouraging was the $258 billion in wealth that was expected to pass from one generation to the next in Nebraska counties by 2050. Even the rural counties in Nebraska had a wealth transfer scenario of $94 billion. What was alarming was the relatively short time horizon before peak wealth transfer would be seen in Nebraska and, most importantly, her rural counties. Rural wealth transfer was expected to peak 15-20 years before the peak for the state as a whole. What these data showed was a moment of opportunity that, if not effectively seized, would soon be gone.

NEBRASKA COMMUNITY FOUNDATION

The Nebraska Community Foundation (NCF), sponsor of the wealth transfer research, used the TOW analysis as a tool to help local leaders set goals for endowment building. According to Jeff Yost, President of NCF, they aim for simplicity:

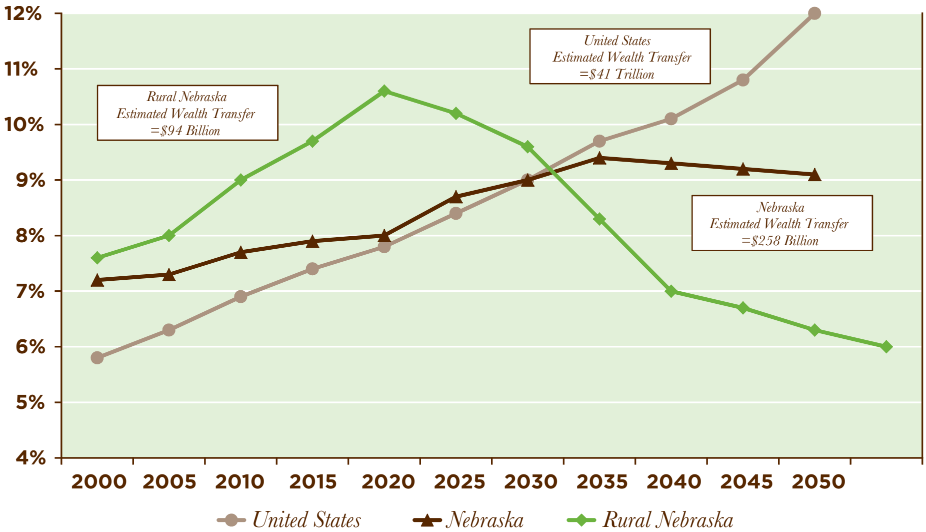
> [W]e encourage affiliated fund leaders to set an initial endowment goal of five percent of the projected 10-year transfer of wealth for their community or county . . . By breaking down this macroeconomic analysis into smaller, more understandable terms, community leaders, donors and their financial planners can all better conceptualize, and therefore embrace, the transfer of wealth opportunity.[3]

In 2008, six of NCF's affiliated funds had met their initial goal of capturing 5% of the transfer of wealth projected for their local areas and another seven funds were half-way home. As recently as 2003, only one fund had met its goal.[4]

NCF was a pioneer in seeing the power of TOW scenarios as a case statement for local philanthropy and donor development. TOW provided a tool for visioning the future – a time when wealth grown in the heartland would flow away from these rural roots unless local residents were given the encouragement, estate planning tools, and opportunity to give back to their hometowns. (To learn more about NCF, go to www.nebcommfound.org.)

One place that achieved its 5% capture goal is Valley County Nebraska and its county seat of Ord. To help achieve this goal, Ord and Valley County created a Founders' Club. The idea was to encourage as many residents as possible to give to the community foundation by setting a relatively low minimum donation of $1,000. When the Founders' Club was established, community leaders set a goal of attracting 47 local residents to the Club; there were 65 members in 2007.[5] As important as these numbers, however, is what the county is doing with these resources – investing in community and economic development projects and providing relocation assistance to attract young professionals. Community philanthropy is a core pillar of Valley County's HomeTown Competitiveness approach to community economic development.[6]

Figure 25 - America's Wealth Transfer: A Likely Scenario



Source: Data are from the Nebraska transfer of wealth study; Wealth in Nebraska, Nebraska Community Foundation, July 1, 2002

TOW on the Great Plains

For more than 20 years, the South Dakota Community Foundation has been supporting and encouraging philanthropic investments across the state. The Foundation's mission is "to promote philanthropy; receive and administer charitable gifts; invest in a wide range of programs promoting the social and economic well-being of the people of South Dakota."[7] The transfer of wealth analysis is one tool the Foundation uses to help local residents understand the resource potential behind this anticipated transfer and encourage local community initiatives to capture and deploy this important resource. County-level TOW data are made available online so that local communities can easily access information for their own strategic planning and decision making discussions.[8]

Perhaps more important, however, is the way the Foundation uses the TOW data as a tool to strategically engage partners in communities and across the state. According to Foundation president, Bob Sutton, they use the TOW results in regional presentations to estate planners, attorneys, CPAs and other professional advisors as a way to help them understand local giving opportunities as an important option for their clients.[9] Similarly, working with financial planners has been a key part of the Nebraska Community Foundation's strategy for building the infrastructure to support local endowment building.

South Dakota has also used TOW as a strategic targeting tool. While TOW does not permit the targeting of individual donors, it can be used to point to counties where the giving potential is high. Sutton uses this information as the basis for strategic discussions with professional advisors at the local level. His objective always is to help local residents "realize their philanthropic dreams"[10] including introducing them to the benefits of giving locally to support their hometown communities. The TOW analysis provides an entry point for these strategic conversations.

A Regional Foundation's Approach

The Community Foundation of the Quincy, Illinois area "connects people who care with causes that matter in the tri-states."[11] In support of this mission, this regional foundation uses the county results from the statewide TOW study, completed by the Center in 2007 for the Donors Forum and the Midwest Community Foundations' Ventures, on its website. A dedicated transfer of wealth page lays out the wealth transfer opportunity, with links to summary results for each of the four counties in its service area. The site also describes the "one-time opportunity to create permanent benefits for our counties" if the 5% TOW capture targets can be met. Specific ways to give and next steps for community residents are provided. Access to this research, and ideas for helping to realize TOW potential, are just part of the message that this community foundation is sending to people in its region: "Secure Your Community's Future: Live Here. Give Here."

Beginning Statewide Conversations

Two recent studies, in Kentucky and Maine, demonstrate how the TOW analysis can be an important tool for initiating statewide conversations about community philanthropy. While the approach used in each state varies, both are using TOW in unique ways to elevate the conversation about community philanthropy across their respective states.

Maine. Working with Maine Rural Partners, a statewide rural development organization, and the Maine Community Foundation, the Center completed transfer of wealth analysis for the state in 2009. Maine Rural Partners had launched a capacity building program – Harness the Wealth! – in three pilot communities and saw the TOW scenarios as a "missing piece" in moving this work forward.[12] These statewide partners used the TOW results to launch a statewide conversation about creating a community legacy:

> Over the next ten years, Mainers are likely to transfer $29 billion to the next generation. If all Mainers choose to invest 5% of their estates in community endowment funds, and if those funds' investments generated 5% returns to benefit the community, then by 2020 these funds would supply an additional $74 million every year to achieve community economic development priorities. **That's a big difference for just 5%. And it's a substantial legacy that we could easily provide for the people that will inherit the communities we call home.**

In beginning this conversation, these partners made three very important connections. One, they used four compelling stories to demonstrate the power and opportunities that can come from "investing together":

- The organization of cooperatives to help preserve the fishing industry in coastal Maine
- The creation of community endowment funds to benefit the people in Aroostook County, and others
- The role of community development financial institutions in supporting local enterprise development and other community initiatives in Lewiston, Isle au Haut, Whiting and beyond

- The revitalization of a community theatre at the heart of the Dover-Foxcroft region

These stories helped to answer a very important question at the heart of community philanthropy – create endowments to invest in *what*? By providing compelling examples of the kind of community building investments going on in the state already, Maine Rural Partners and the Maine Community Foundation helped to make the abstract concept of creating a community legacy real for people in the state.

Two, another part of the conversation was to connect the 5% capture targets to real investment opportunities being considered in communities across the state. For example, Washington County's desired $3.1 million investment in the Eastport Renewable Energy Center could be fully supported with two years of county endowment funding *if 5% capture targets were met*. By making specific connections between investments that communities had already defined as strategic and the endowment building potential behind the transfer of wealth, community leaders could see the benefits of community philanthropy in a very real way.

Three, Maine Rural Partners connected the message of "it's just 5%" to demonstration projects in three pilot communities engaged in strategic endowment building as part of their efforts. Translating this for the state as a whole would, as described in the report, supply $74 million a year to fund these types of community priorities.

Maine's efforts to use the TOW results as fuel to begin a statewide conversation demonstrate the importance of grounding discussion about the transfer of wealth potential in the specific realities of a state or region.

Kentucky. Working with the Kentucky Philanthropy Initiative (KPI) and other partners, the Center completed transfer of wealth analysis for the state in 2010.[13] Under the auspices of KPI, the TOW results were shared as part of a statewide Summit on Philanthropy in September 2010. Another important topic at the summit was recently passed state legislation (SB 227) to provide tax incentives for the creation of community endowments, the Endow Kentucky program. KPI was an active advocate for the passage of this legislation and used the public report on the TOW work to highlight Montana's legislative leadership to encourage community philanthropy.[14] The report references the Montana Charitable Endowment Tax Credit legislation that was enacted in 1997 and provided credits against state income taxes for planned gifts to qualified Montana charitable endowments.[15]

The Kentucky Philanthropy Initiative

Over the 10 year history of the tax credit, it is estimated that $100 million has been gifted to Montana charitable endowments.[16]

Although Endow Kentucky legislation was passed prior to the completion of the TOW study, KPI's leadership provided a connection between these two efforts. In the press release to announce the signing of the legislation, Governor Beshear stated, "Community-based philanthropy is a critical piece of community and economic development . . . Under the current economic conditions, government has a decreasing ability to meet the demand for all services required by the people of Kentucky. We need communities to find ways to be more responsive to Kentucky families for the greater good of the Commonwealth."[17]

In Kentucky, TOW results are one tool in the broader statewide public policy conversation that the Kentucky Philanthropy Initiative and its partners are having from individual communities to the statehouse. Gerry Roll, Executive Director of the Community Foundation of Hazard and Perry County made this connection explicit in a quote in the Governor's press release: "Over the next ten years, Kentuckians will experience huge wealth transfers from one generation to the next . . . This legislation creates a way to capture that wealth before it leaves the communities in which it was generated."

Final Thoughts

Over the past 10 years, the transfer of wealth analysis has been a valuable tool for local, state and regional leaders across the country. Our state and local partners have used the analysis in unique ways based on the strategic needs and opportunities they face. Across these studies, however, several themes emerge. One theme is the power of the TOW tool to help communities imagine a future where they are able to capture some small component of wealth transfer – "just 5%" – for community betterment. Communities in Nebraska, with the support of the Nebraska Community Foundation, have been successful in turning this TOW potential into endowment building. Another theme relates to the use of TOW to help people in communities understand the potential for give back – to recognize that there is wealth in their communities across the generations. The challenge is making the case for this give back and creating the vehicles for capturing and investing donations.

One theme that was powerfully demonstrated by the work in Maine is the use of TOW to frame giving and investment strategies – to equate the potential behind wealth transfer with real development needs and opportunities in communities across a region. This approach helps to answer the "so what" question – what difference will capturing 5% of the transfer of wealth make in our communities? The answer, as demonstrated in Maine is, "A lot." And, finally, a theme that emerges, particularly from the more recent studies, is the importance of harnessing homegrown resources for community economic development in light of the challenging public sector funding environment. When local communities are able to build endowments and create development resources that they control, a change in mindset can occur. People who have focused for too long on their deficits instead focus on their assets. People move from thinking about scarcity to considering abundance. They begin to take control of their investments and their futures.

Our focus so far has been on *understanding* the American wealth opportunity and the transfer of wealth potential that arises from that opportunity. We move now to a focus on *realizing* the wealth creation opportunity. We will explore in greater depth the importance of local philanthropy to the economic development futures of communities and regions across the country.

1 A detailed listing of these studies, with links to the relevant reports, can be found at www.energizingentrepreneurs.org/site/index.php?option=com_content&view=article&id=30&Itemid=3.

2 We are beginning to respond to requests from our partners to update past TOW studies to reflect new data and changing economic circumstances.

3 Jeff Yost, Involve Everyone to Grow Philanthropy in Rural America, *Philanthropy & Rural America*, Council on Foundations, 2008, p. 68.

4 Jeff Yost, p. 68.

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CHAPTER 5

The Right Moment for Community Development Philanthropy

The first section of this book provided the framework for understanding American wealth and the fundamental national and global economic restructuring that stands to impact wealth creation in this country in the years and decades ahead. We introduced new scenarios for the transfer of wealth opportunity that take into consideration this restructuring and, as a result, we assume that households will be more challenged to accumulate assets and create wealth as compared to the past. And, we shared evidence of communities and states that are using this scenario analysis to make the case for community give back in a variety of important ways.

Now we turn our focus to realizing the wealth creation opportunity – to making the important connection between wealth creation, wealth capture, and the reinvestment of that wealth in ways that stimulate community economic development. In many ways, this is the right moment to consider how communities and regions across the country can create a homegrown pool of development resources. There are significant and likely long term constraints on the traditional development resources that communities and states have come to rely on to fund infrastructure, housing, and business development – in essence, the building blocks for community economic development. At the same time, access to locally controlled development resources can:

> **Empower local and regional decision making as leaders have a means to translate vision into strategy and action**

> **Encourage civic democracy as more people become stakeholders in determining the community's vision for the future**

> **Enhance social and environmental justice as community residents exercise more control over how their assets are used and for whose benefit**

The Current Funding Context

Just as the Great Recession has impacted the wealth holdings of most Americans, this economic crisis has had a profound impact on federal, state and local units of government and on the philanthropic community – important supporters and funders of local and regional economic development. In commenting on the impact of the economic crisis on community development finance, Mark Pinsky, CEO of Opportunity Finance Network, defined the "new normal":[1]

> "The new normal" reflects the seismic shift underway that will result in fundamentally and permanently different market practices, rules, and realities than those anyone working in financial services and community development has ever known. The systemic and structural changes of the past two years, and those likely over the next one to two years, create a financial marketplace that is distinctly different from the market of the past thirty years.

What does this "new normal" mean in terms of access to development resources, particularly in rural regions? Funding for economic and community development has become more constrained at all levels – federal, state and local, and among philanthropic institutions. There are no easy answers to the challenge of accessing resources for economic and community development but it is clear that no single unit of government or even the public sector at all levels will be able to provide the support needed without working together with private and philanthropic institutions.

At the federal level, the budget crisis has risen to historic levels. In March 2011, Congress passed the sixth continuing resolution for the FY 2011 budget – almost six months into the 2011 fiscal year. Over those six months, the failure to pass a budget and commit federal resources to authorized economic development programs created uncertainty that trickled down from federal agencies to state governments, regional development organizations, and local communities. The ever increasing budget deficit has placed intense pressure on elected leaders to curb discretionary spending, including community and economic development programs. As one example, President Obama's FY 2012 proposed budget called for significant reductions in three program areas that have historically been important sources of funding for economic development in local communities and regions – U.S. Department of Agriculture Rural Development programs, Community Development Block Grants administered by U.S. Department of Housing and Urban Development, and Community Services Block Grants administered by U.S. Department of Health and Human Services.[2] Additional cuts in economic development funding resources proposed by the Congress suggest that, regardless of the outcome of future budget negotiations in Washington, D.C., the "new normal" in terms of federal spending on economic development is likely to be one of limited resources. As further evidence of this new austere environment, you need look no further than the highly partisan debate in summer 2011 leading up to the last minute deal to raise the debt ceiling and cut over $2 trillion in federal spending.

In the immediate wake of the Great Recession, the federal government provided some emergency fiscal relief to state governments designed to help them weather the economic storm. In spite of this assistance, most states made deep cuts in spending in 2009-2011 to address budget deficits. And the pain is expected to continue – for FY 2012, 44 states and the District of Columbia are projecting budget shortfalls of $112 billion.[3] At the same time, the federal government's temporary fiscal relief will drop to only $6 billion in FY 2012, or about 5% of these projected shortfalls.[4] As a result, state and local units of government will be forced to make tough decisions about discretionary spending; providing essential services will take precedence over more strategic, long term investments in economic and community development.

One trend that is likely to continue in terms of allocating federal and, perhaps in response, state resources is the emphasis on cross-jurisdictional and cross-agency collaboration. The U.S. Department of Housing and Urban Development Sustainable Communities program provides one example of this emphasis.

> When they formed the Partnership for Sustainable Communities, the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Environmental Protection Agency (EPA) agreed to collaborate to help communities become economically strong and environmentally sustainable. Through the Partnership and guided by six Livability Principles, the three agencies are coordinating investments and aligning policies to support communities that want to give Americans more housing choices, make transportation systems more efficient and reliable, reinforce existing investments, and support vibrant and healthy neighborhoods that attract businesses.[5]

This collaborative focus has drawn the attention of other federal agencies, including the Department of Agriculture. If this initiative indeed represents a trend in how public sector resources are allocated, the implications for communities and regions are clear.[6] Working in isolation, hanging onto generational community animosities (e.g., old high school sports rivalries), and competition across county lines must be replaced by an attitude of regional collaboration and a willingness to work hand in hand with the private sector, including philanthropic institutions, to move community economic development forward.

The philanthropic community, often an important resource for community economic development programs, has also been shaken by the Great Recession. According to the Foundation Center:

> The worst economic crisis since the Great Depression resulted in the biggest reduction in U.S. foundation giving on record. In 2009, the nation's more than 75,000 grantmaking foundations cut their giving by an estimated 8.4 percent, or $3.9 billion . . . Findings from the Foundation Center's annual "Foundation Giving Forecast Survey" suggest that 2010 foundation giving will remain flat . . . Should poor housing sales, increasing oil prices, persistent unemployment, or other unforeseen factors not derail the economic rebound that began late last year, it appears likely that foundation giving will show positive, albeit very modest growth in 2011.[7]

History suggests that while foundation giving does bounce back after a downturn, such as the recession in the early 1980s, it does take time.[8] For regional economic development organizations and non-profits across the country, the coincident decline in public and philanthropic resources has created a particularly steep challenge – one that many organizations have been unable to overcome. Rip Rapson, President of the Kresge Foundation, commented on how the economic downturn "continues to reverberate through the nonprofit sector, imposing unimaginable hardship on millions of people unable to navigate their way in the new economic order and tightening the vice-like squeeze nonprofits feel between heightened demand for their services on one side and reduced revenue flows on the other."[9]

Homegrown Development Resources

With the decline and uncertainty associated with traditional development resources, communities and regions across the country are searching for alternatives. One way to create a sustainable, long term source of development resources, or assets, in rural regions is to create appropriate vehicles for capturing some portion of the wealth created in rural places and investing it to support future development and innovation. There is broad appreciation for the importance of helping *individuals* build assets – financial assets they build and control; skills they acquire through education, training and/or job experience; the home they own. These individual assets represent investments – they improve the prospects for meaningful and living wage employment, they represent the "nest egg" for starting or growing a business or educating a child. There is much less emphasis on the importance of *community asset building* – creating a pool of resources or wealth that the community owns and controls and invests for the future. However, communities across the country are experimenting with models of local ownership and control of assets as a key part of their economic development strategies.

The need for homegrown development resources is not just a post-Great Recession phenomenon. In a 2007 publication on rural philanthropy from the National Committee for Responsive Philanthropy, the importance of local philanthropy was described this way:

> Without locally-controlled philanthropies, rural states, regions, and communities risk losing potential wealth… In today's climate, it appears that rural communities are working against more forces than with them. Federal policy has been sluggish at best in responding to persistent rural poverty, addressing widening telecommunications gaps in remote place, cultivating environments ripe for entrepreneurship and forward-thinking economic development, and redressing ineffective farm policy. These mounting struggles are only met by an uninterested private sector that won't profit from serving small rural bases, and a largely absent philanthropic sector. Rural foundations, therefore, make sense.[10]

Suggesting a need for more "rural foundations" begs the question of how to create and support such foundations. Fortunately, community foundations are an important and growing part of the American philanthropic landscape with particular relevance to rural places. According to the Council on Foundations, there were 717 community foundations in the U.S. in 2007. In 2008, these institutions were responsible for $4.6 billion in giving and they served 86% of the U.S. population.[11] Earlier research supported by the Aspen Institute found that 90% of community foundations served at least some rural territory. In addition, these foundations were creating a growing number of "geographic component funds" – established to serve a particular place and guided to some extent by the people in that place. And, almost ¾ of these funds were primarily rural.[12]

While there are other models for "keeping wealth local",[13] community foundations offer one well articulated means of capturing and institutionalizing wealth for individual and community betterment.[14] At the same time, harnessing locally grown wealth – building endowments that can support sustainable investments in regional development – is not a short term strategy. Leaders must continue to pursue partnerships with public agencies, rural utilities, regional foundations, and other organizations that can provide support for operations and programs in the near term. To insure sustainability and resilience for the future, community and regional leaders must be willing to shift their focus from getting by in the short run to investing for the long run. Having access to homegrown development resources is a necessary part of this long term vision. It also requires moving toward a more strategic form of community philanthropy that works hand in hand with economic and community development.

Community Development Philanthropy

There has been a movement of sorts over the last decade to define a new philanthropic niche or focus – community development philanthropy. Janet Topolsky, co-director of the Community Strategies Group at the Aspen Institute, defines community-based philanthropy as "any philanthropic fund created through giving and investment from local or outside sources that is dedicated to benefit a specific rural place and its people."[15] Community economic development has been defined as:

> A specific kind of economic development that explicitly recognizes the social and political aspects of community life that influence an economic situation in a particular geographic region. It engages people in face-to-face discussions regarding local control and community development. It is grassroots, empowering, synergistic, and inclusive. It is forward thinking and asset-based yet considerate of local resources

and the natural environment. It provides direct, tangible benefits to the community in economic and noneconomic ways.[16]

Community *development* philanthropy combines the tools of community economic development with community-based philanthropy. It is the *intentional marriage of community economic development and philanthropy*.[17] Community development philanthropy provides a powerful complement to the transfer of wealth analysis by helping to answer the important question raised at the end of Chapter 4 – capturing wealth to invest in what?

The Aspen Institute, using the term *rural development philanthropy*, describes it as:

A community-led approach that creates locally controlled assets and invests them to strengthen rural places. It builds a community's ability to shape a better future and promote the well-being of all community members. It unites the tools of community, economic and resource development, engaging all people to come together with their ideas, strategies, talents, and giving.[18]

What does all this mean for rural communities and regions? One, the emphasis on "locally controlled assets" – homegrown development resources as we have defined them – means that communities are empowered to use these assets to support the development strategies that matter most to them, an antidote to following the dollars and losing strategic focus. For example, if a community embraces entrepreneurship education for high school and community college students as one way of creating an entrepreneurial environment, they may choose to invest local dollars in such efforts, even when most funding resources are focused solely on job creation outcomes. Two, rural development philanthropy encourages community leaders to focus on making investments that "strengthen rural places." This approach implies a long term view of development, a focus on creating wealth, and consideration for sustainability and not just short term job or income creation. Three, by emphasizing the "well-being of all community members," rural development philanthropy is a community building strategy. As described by Janet Topolsky, "Low-population rural areas must tap every resource possible to build a sizeable endowment, so they are motivated to work across class and race and culture boundaries to build them together."[19] This process will bring new energy and insights to the table – building social capital at the same time that the community works together to strengthen the local economy.

What is distinctive about community development philanthropy is that it is about more than amassing charitable resources. It goes beyond *giving to growing* – building stronger, more sustainable and resilient rural places because of the investment of locally generated and leveraged philanthropic assets. This pool of development resources can be influential in attracting both private and public sector dollars to rural communities. It is evidence that a community believes in itself and is willing to invest for the future – an alluring attitude for other potential funders.

While community foundations can be found across the rural landscape, there is a smaller but very committed core group of foundations that have embraced rural development philanthropy. To really understand how these foundations are taking a different and more strategic approach to community philanthropy, the next chapter will share some of their stories and the lessons from this important work.

The Case for Community Development Philanthropy

In our currently challenging economic environment, it is not unreasonable for rural community and regional leaders to wonder if they can afford to have a long term vision, if they can afford to invest with an eye toward long term sustainability and not short term gains. The pressure to create jobs is being felt from the office of a local economic developer in rural Montana to the Oval Office in Washington D.C. But, the case for community development philanthropy is not an *either-or situation*. Community leaders must be focused on making the immediate investments needed to create economic opportunities today while also taking the steps to build development capacity and sustainable wealth for the future. Community development philanthropy provides one way of thinking and acting to bridge these two time horizons.

Part of the case for community development philanthropy is tied to the transfer of wealth potential that was described earlier. When the first TOW study was completed in Nebraska, the striking result was not only the amount of wealth that could be expected to transfer across generations but also the *timing* of that transfer. Some rural counties had mere decades to respond and create the institutional infrastructure and imperative to capture a portion of that wealth for community betterment. As rural regions continue to experience outmigration and population shifts, they are facing an enormous potential loss of wealth as current generations retire or pass on and their assets flow to family who reside outside rural areas. Rural community and regional leaders who act now and create the institutional capacity to capture and invest homegrown wealth are better positioned to support the type of strategic investments that will be needed to insure that their communities remain strong and competitive in the years ahead.

Perhaps the best way to articulate the case for community development philanthropy is to see it in action. While the next chapter explores lessons from across the country in greater detail, the story of South Wood County Wisconsin paints a picture of community development philanthropy in action.

The Community Progress Initiative in South Wood County Wisconsin

Located in central Wisconsin, South Wood County lost almost 40% of its employment from 2000 to 2004 with the perfect storm of a declining market for cranberries, an agricultural mainstay for the county, and the closure of a large paper company. The loss of the paper plant in particular meant a loss of higher paying jobs and a decline in community leadership capacity. While the need for short term solutions was strong, the county launched a three-year Community Progress Initiative (CPI) – a collaborative partnership between the Heart of Wisconsin Business and Economic Alliance (the county's chamber and economic development organization) and the Community Foundation of South Wood County. The goal of CPI was to "create vibrant communities with prosperous local economies"[20] by focusing on supporting new business development, building endowed charitable assets, fostering a stronger community spirit and creating a shared vision across the county.

Although all the pieces of this innovative initiative were instrumental in its success, according to a case study of CPI, "the importance of private philanthropic support cannot be underemphasized. Private money offered local residents an immediate opportunity to invest in development efforts that they believed would stimulate the kinds of changes they wanted to see."[21] Working through the community foundation, Progress Funds were established for each of the seven communities covered by the initiative.

These funds provided a source of homegrown development resources that could be used for investments that might not have attracted funding from outside the community. To encourage community support for the Progress Funds, CPI drew on the transfer of wealth analysis completed by the Center for Rural Entrepreneurship for the Donor Forum of Wisconsin and encouraged residents throughout the county to "Plant the Seed – Build a Stronger Community."[22]

The end result for South Wood County? During the initiative's three years, the community witnessed the creation and/or diversification of 30 businesses – creating 245 and retaining 77 jobs. The initiative built social capital – a resource network of 3500 people who can be mobilized to address future issues and who, for the most part, had not previously partnered for the benefit of the community. Initiative leaders have brought the latest and best thinking to the region, and have taken community leaders on study tours to learn from other innovative leaders. As importantly, hope for the future has replaced the despair that had become prevalent by 2004.[23]

The community foundation played a key leadership role with the Community Progress Initiative. It continues to take the lead in community development philanthropy through its Workforce Central Funders Collaborative – a project that uses philanthropy to create a pool of $2 million to support workforce efforts in the county, a critically important piece of a community development strategy. This capacity was rewarded with the only federal Social Innovation Fund grant received by an organization serving a rural region.[24]

A Note on Shared Value

In a *Harvard Business Review* article, Michael Porter and Mark Kramer make the argument that creating shared value is the path toward innovation and growth for the U.S. and world economies. Shared value is defined as the "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates."[25] This idea moves beyond the concept of corporate social responsibility to embrace what Jason Saul calls "social innovation" – creating economic value through positive social change.[26] Social innovation answers a critically important question – "how do you generate business value through solving social problems?"[27]

Where does the concept of creating shared value or social innovation fit into a discussion of American wealth and community development philanthropy? In the new challenged funding environment for rural communities and regions, engaging the private sector – from small, locally owned businesses to major corporations – is critically important. How to structure and facilitate that engagement, however, becomes the challenge for rural leaders. By framing discussions in terms of shared value, rather than philanthropy, communities and regions have a stronger case to make to potential private sector partners. The interdependency of communities and businesses is at the heart of shared value. As articulated by Porter and Kramer:

> At a very basic level, the competitiveness of a company and the health of the communities around it are closely intertwined. A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens.[28]

Embracing the concept of creating shared value will require a change in thinking on the part of rural economic development leaders. The focus must be on creating value – benefits minus costs – and not simply implementing programs. It will also require a regional focus, and recognition of rural – urban interdependencies, particularly in terms of identifying potential business partners. It will also require organizational capacity to facilitate conversations between and among community and regional leaders and businesses. Community foundations, particularly those who have embraced community development philanthropy, could play a role in facilitating these conversations.

Final Thoughts

With diminished federal funding, limited national foundation focus on rural people and places, and continued economic challenges that must be addressed, rural communities and regions are between the proverbial rock and a hard place. If community leaders want to create a brighter future for themselves and their children, they need to have more control over how rural assets are used to generate wealth and how that wealth is captured for the benefit of rural residents. President Bill Clinton offers hope to rural leaders through stories and lessons learned from a new generation and tradition of American philanthropy in his book, *Giving*. He emphasizes a new philanthropy rooted in the "Three Ts" of time, treasure and talent. Today, we recognize that gifts, both large and small are important. The time given by one resident of a community to mentor another is as valuable as the financial gift from a high net worth family. Both advance a collective commitment that we all should give based on our means and passion. None in society should take a pass and all are obligated to be philanthropic. This vision of philanthropy enhances and embraces democracy where everyone is a part of defining needs and supporting solutions.

Community development philanthropy provides the tool needed to turn this hope into reality – to make an intentional connection between the power of community-based philanthropy and the strategic focus provided by community economic development. The transfer of wealth opportunity scenarios described earlier in this book provide the compelling storyline for taking action – suggesting that the time is now for harnessing homegrown development resources of time, talent and treasure. Providing inspiration through the stories of how this is being done across rural America is the topic of the next chapter.

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CHAPTER 6

Community Development Philanthropy in Action

The best way to understand community development philanthropy is to experience it in action – to learn from the stories of people and organizations committed to the practice. This chapter will highlight some communities and organizations that have helped to both define and evolve what has come to be called community development, or rural development, philanthropy. These stories begin in Tupelo, Mississippi more than half a decade ago and continue up to the present in places as diverse as eastern Kentucky, Nebraska, and western Minnesota.

At the national level, the Aspen Institute's Community Strategies Group (CSG) has provided organizational direction and facilitation for this movement. In the mid-1990s, with support from the Ford Foundation, CSG selected community foundations to participate in learning clusters. These clusters were designed to promote peer exchange and learning related to two challenges identified for rural places that continue today:

> **"Community foundations, particularly statewide and regional ones that encompass large rural expanses, must learn how to provide full endowment and grantmaking services to their rural territories."**

> **"Rural communities that are working to improve local economic prospects for all their citizens must learn how to make good use of these community foundations in their efforts."** [1]

The lessons from this early work relate to both the development of the organization – the community foundation – and the way in which their work gets done. Participating foundations realized that the core of their work was not simply building endowments but also building communities. And, the learning cluster showed the power of creating a network of foundations that could learn from each other, overcoming the isolation that many rural practitioners face. Foundations also began to see the potential for endowment building even in the poorest communities. They saw their practice moving from grant making to capacity building in their communities.[2]

To expand the impact of this early work, CSG created the Rural Development Philanthropy Learning Network in 2000, with initial support from the Ford Foundation. The network included a diverse group of organizations, from the U.S. and beyond, committed to sharing the lessons and tools from their rural development philanthropy practice.[3] More recently, a volunteer network - the Rural Development Philanthropy Collaborative – was established, with support from CSG. Members of the collaborative are working to "create a true practice of Rural Development Philanthropy and a growing network of competent and effective RDP practitioners who help rural communities achieve and sustain significantly more positive and equitable change."[4] Their vision for the community transformation that is possible through rural development philanthropy is described this way (emphasis added):[5]

- **It improves the skills, confidence and economic success of *people* who live there, especially marginalized and low-income people.**
- **It advances a *culture* where everyone belongs and everyone's participation is eagerly sought and valued.**
- **It maintains and strengthens the value of natural and built resources that are critical to a *place's* present and future health.**
- **It increases ownership and prosperity in the local *economy*.**

With this background, we share some stories of organizations across the country that are practicing community development philanthropy in rural places.

Mississippi Roots

Through a committed and very intentional process over the past 70 years, Tupelo and its northeast Mississippi region have become known for successful economic and community development efforts that have resulted in rising educational attainment, improved quality of life, positive economic development and job creation – and a reputation as a national model for community economic development. In Tupelo we find the roots of community development philanthropy – although it wasn't called that – and witness the strong case for connecting community and economic development (emphasis added below):

> Developing the community – connecting its people and its institutions – lays a base for balanced and sustainable economic development. In Tupelo, citizens themselves developed strong community organizations that could successfully channel their energy and accomplish their ideas. It has been Tupelo's dedication to finding ways of helping poor people to help themselves that put it on its current track, and its commitment over the decades to *pumping its economic gains back into the community that has kept it there.* [6]

Once one of the poorest areas in the country, this region has experienced success by adhering to principles that, in many ways, describe the core of community development philanthropy.

Defining Shared Value and Community Responsibility. Tupelo's story begins with the vision and leadership of a single person – George McLean – but continues with the engagement of a whole community of visionaries. In a compelling case study of Tupelo's success, Vaughn Grisham shares the story of McLean's first attempts to move the community forward by helping local business owners recognize that their success was tied to the economic fortunes of the poorest rural residents in Lee County. When McLean asked a local hardware store owner how much he had grossed the year before, he was abruptly shown the door. But before his eviction, he offered the following explanation for what he guessed to be very low earnings – the business owner's customers were primarily rural families living in one of the poorest counties in the U.S. For the business owner to make more, those families needed to earn more and have more disposable income. "You can't sell them anything beyond their spendable income. So let's find a way they can make more money. If they can make more money, they can buy more of your hardware."[7]

McLean was, in the 1940s, defining for the citizens of Tupelo and Lee County the same concept of "shared value" that Porter and Kramer articulate in their 2011 *Harvard Business Review* article. For McLean, the rationale for doing this was simple - "people connect with community development when they understand how it affects them and their families; only then can they begin to see not only where their self-interest joins with the community's, but where their most productive role might be."[8]

Tupelo's approach also recognized the importance of defining "community" broadly – it included not just the municipality of Tupelo but also the surrounding rural parts of Lee County, taking a regional approach. Community included farmers as well as local business owners; it included both the black and white communities, something relatively unheard of in the segregated south at that time. McLean and other leaders worked hard to help this inclusively defined community develop its own shared vision so that they could more readily move forward with the hard work of achieving that vision. At the same time, while broad civic participation was encouraged, eventually becoming the behavioral norm in the community, there was also a strong culture of "give back" – that those who had the most resources should be investing to enhance the quality of life for everyone. This sense of responsibility is at the core of community development philanthropy.

Building Institutional Capacity. During the mid 1940s – the initial years of Tupelo's community and economic development efforts – a number of activities were undertaken. Rural Development Councils were organized in rural towns to help organize farmers and other residents and empower them to become more involved in determining the future of their communities. In an attempt to develop a more robust dairy industry and improve the economic opportunities for the area's farmers, local residents and business leaders bought a bull and began an insemination program that resulted in Lee County becoming the leading dairy county in the state. Tupelo's leaders reached out to federal agencies such as the Tennessee Valley Authority and the Appalachian Regional Commission to partner on infrastructure and other investments needed to support their vision for the future. In spite of these accomplishments, there was a strong sense that these efforts needed to be institutionalized in some way – that an institution needed to be created to hold the vision and provide the leadership for what was becoming a new way of doing both community and economic development.

In 1948, 88 leaders, including the community's three banks and newspaper, formed the Community Development Foundation (CDF). In keeping with Tupelo's encouragement of "give back," there were 150 founding members (contributing a total of $25,000) in its first year and every business was invited to participate. The purpose of the CDF was "to coordinate, initiate, promote, develop and assist in the financing, management and direction of enterprises leading to the upbuilding of the community."[9] While the CDF became the primary economic development organization for Tupelo and Lee County – and continues in that role today – it was guided by some key principles that helped to ground its efforts in the convergence of community and economic development:

- **Economic development was a tool in the service of improving the life of the community and moving "from a poor farming county to a poor industrial county" was not an acceptable objective.**
- **Any activities needed to be driven by a broad, inclusive and engaged group of local citizens and solutions developed without this input and buy in were likely destined to fail.**
- **People in the community matter and business and the workforce – a key asset for Tupelo – must both win in order to move the community forward.**
- **Development is "a two-way street" and businesses were expected to be good and engaged citizens in exchange for the support of the community.**

Encouraging Diversified Economic Development. Over more than 25 years, the CDF developed a successful track record of economic development and provided leadership that included a range of attraction and retention strategies including industrial site development, particularly in rural communities outside of Tupelo, infrastructure development, and meeting the technical needs of businesses. However, the CDF also supported growth from within strategies through the creation of business incubators – Community Enterprises – in old warehouses in Tupelo. Incubation of homegrown enterprises continues to be a focus of Tupelo's efforts with the Resanant Center for IDEAS, a regional business incubator serving both Tupelo and Lee County entrepreneurs.[10]

Emphasizing Investment. At the heart of Tupelo's success was a recognition that the community needed to invest in the creation of multiple forms of capital in order to achieve both economic and community prosperity. They needed to support investment that, while it was not likely to have an immediate impact in terms of economic development, e.g., job creation, would improve quality of place and the long term prospects for the region. Examples of these investments include:

- Individual capital – investment in education to build workforce and leadership skills; investments in health care and day care to improve both quality of life and the ability of residents to contribute to economic development
- Intellectual capital – inventor groups to encourage the development of entrepreneurial opportunities
- Financial capital – partnering with the Tennessee Valley Authority and the Appalachian Regional Commission to bring in new investments, e.g., infrastructure, to the region
- Built capital – investment in improved housing; creation of business incubators; CREATE community foundation
- Social capital – commitment to and establishment of vehicles for citizen engagement, including the Rural Development Councils in communities outside Tupelo; intentional efforts to improve race relations
- Political – strong support by the local paper, keeping community economic development issues in front of residents to garner buy-in for initiatives such as a significant school bond

In keeping with the focus on institutionalizing changes in the region, in 1972, the CREATE Foundation was established, through the leadership and endowment of George McLean and his wife, Anna Kiersey McLean. The foundation was to provide a vehicle for giving back, particularly in support of education and leadership development. Over time, its mission has evolved to focus on building permanent community endowments for its 16 county region, as well as providing support for community development capacity building and targeted grant making to address opportunities in its communities. Together, CREATE and the CDF provide needed capacity in this region to advance the vision that McLean and others helped to articulate, and to move the northeast Mississippi region forward as a model for community economic development in the country.

Coming Back – Giving Back in the Heartland

More than half a century removed from the Tupelo experience, the HomeTown Competitiveness (HTC) framework for rural community building was born in the heartland with reliance on many of the same principles honed in Mississippi. HomeTown Competitiveness – a "Come-Back/Give-Back Approach to Rural Community Building" – is a strategic partnership of the Nebraska Community Foundation, the Heartland Center for Leadership Development and the Center for Rural Entrepreneurship.[11] This framework grew out of recognition that the challenges facing many rural communities, particularly in the nation's heartland, were not one dimensional but four pronged:

> **Decline in traditional sources of economic activity with the loss of farms, ranches, and local businesses**

> **Outmigration of young people including the "best and brightest"**

> **Erosion of leadership capacity with an aging population and outmigration**

> **Anticipated intergenerational transfer of wealth and potential loss of wealth as estates pass on to non-resident heirs**

What was needed was a more comprehensive approach to community economic development – one that recognized the interconnections between these challenges and sought solutions that were more holistic. The HTC framework is, at its core, asset-based development. It identifies four key areas that collectively address the challenges described above:

- **Building local leadership**
- **Expanding community philanthropy**
- **Energizing entrepreneurship**
- **Engaging youth and young people**

While the HTC model has its deepest roots in Nebraska communities – the site of the initial pilot community, Valley County, and a demonstration effort supported by the Kellogg Foundation as part of its Entrepreneurship Development Systems for Rural America initiative beginning in 2004 – communities in other states have also adopted the framework. While these communities have achieved a broad range of outcomes through their HTC efforts, it is the intersection between community philanthropy and community economic development that is most relevant to the discussion here. Communities across Nebraska and elsewhere are not simply raising endowments but are raising field of interest funds to support strategic community economic development initiatives.

Entrepreneur-focused Economic Development. A number of communities are directing charitable giving toward initiatives that encourage entrepreneurship as a component of local economic development efforts. In Valley County Nebraska, entrepreneurs receive scholarship support through the local affiliate foundation to participate in a Business Boot Camp, done in partnership with Nebraska EDGE. In McCook, Nebraska and Holt County Nebraska, foundation resources are being used to support business coaches – individuals who work to identify and connect entrepreneurs to the resources they need to start and grow their businesses, and contribute to the local economy. These efforts are part of a broader movement to shift from an outward looking approach to development – hoping to recruit the next automobile manufacturer, for example – to an approach that supports homegrown development by encouraging the entrepreneurial aspirations and endeavors of local residents.

Youth Engagement and Entrepreneurship. Creating opportunities for young people to stay and/or return to their rural hometowns has been another important component of HTC work. In McCook, Nebraska, a significant planned gift from a local couple – business owners in the community – is supporting entrepreneurship training for teachers, curriculum in the schools, and summer camps for young people. The foundation is also supporting a youth advisory group – Youth Change Reaction – to provide an opportunity for young people to become more involved in the community and build their leadership skills.[12]

Youth engagement was the driving force behind the creation of the Barry County Community Foundation in Michigan. The foundation was created in 1995 in response to a challenge by the Kellogg Foundation to match every $2 raised by the community with $1, up to $1 million – as long as the endowed funds were used to support charitable giving directed by young people in the community.[13] The Youth Advisory Council that was formed as a condition of Kellogg's investment is now a primary feature of the community foundation's work, having disbursed over $300,000 in grants since its inception in the mid-1990s.

From this solid foundation in youth engagement and philanthropy, Barry County Community Foundation achieved strong success – growing to $17 million in endowments and over 165 different funds.[14] However, to achieve the impacts that community development philanthropy seeks, a more focused, asset building strategy was needed. HomeTown Partnership, based on the HTC framework, was adopted to organize the foundation's grant making around four strategic areas – leadership, entrepreneurship, youth engagement and community assets. Focusing grants on these key areas ensures that philanthropy supports the core components of community building, and contributes to sustainable development over time.

Redefining the Role for a Regional Community Foundation

The West Central Initiative (WCI) is one of six regional Initiative Foundations operating across Minnesota and supported by the McKnight Foundation. Operating in a nine-county rural region of the state bordering South Dakota, WCI has evolved since its start up in the mid 1980s to redefine the role for a community foundation and to embrace community development philanthropy – shifting from a focus on increasing endowment building for the foundation to building assets for the region.[15] WCI's story provides some useful lessons for other foundations interested in following a similar path.

Effective Use of Convening Power. With a regional footprint, WCI is well equipped to play the role of convener, particularly in addressing issues that cut across municipal and county boundaries. WCI did just that in bringing the Rural Family Economic Success framework (RuFES) to the region in 2004. The Annie E. Casey Foundation has supported RuFES as a comprehensive approach to community development, with the goal of increasing family economic success. The model focuses on three components – "earn it, keep it, grow it"[16] – that relate to strategies for helping more low income families increase their capacity to earn a living, developing vehicles for these families to keep more of this income, with the ultimate goal of growing assets over time. For WCI, this framework reflected the broad set of initiatives already underway at the foundation, but provided a way to see and talk about the interconnections in this work. One of the clear benefits from WCI's use of its convening power is the new knowledge and tools that were brought to the region – an example of building a very intentional bridge between often isolated rural places and sources of creativity and innovation in other parts of the country.

Combining Philanthropy and Economic Development. WCI is the only Initiative Foundation in Minnesota that also serves as an Economic Development District (EDD), bringing access to funding from the Economic Development Administration (EDA) to the region, and it is the only EDD operated by a charitable foundation. This unique combination of philanthropy and economic development creates a strong foundation for the community development philanthropy work that lies at the heart of WCI. The foundation focuses on three areas – business and employment (including support for entrepreneurship development), communities and the region, and workers and their families.[17] They provide a comprehensive set of services in these areas, either directly or in partnership with other organizations in the region, including business lending, leadership development, workforce development, support for asset building, and regional planning/visioning. In addition to program support, WCI has created a number of field of interest funds related to broader regional issues – e.g., support for seniors, focus on children and families, technology issues related to workforce and economic development. The connection between philanthropy and economic development is a very intentional one – staff members involved in community philanthropy also see their work as economic development. It is a logical "next step" for staff to help a business grow, and then later on ask the business to give back and become a donor.

Emphasis on Collaboration. WCI has a wide range of collaborative partners, from the Small Business Development Center to local community action programs to EDA. Their capacity to facilitate collaboration is based both on necessity and opportunity. As in many rural regions, operating in silos does not often help move the region forward. With limited non-profit capacity, working together can pay big dividends. The RuFES model and WCI's commitment to community development philanthropy provide the framework for working with other organizations. As one partner related, "We've all been in our silos. Economic development worked over there, social services over there. It's brought many of the vital organizations and leaders together to really address a regional issue."[18] This framework, and the facilitation by WCI, has helped partners in the region identify the shared value of working together, to see their individual work as contributing to broader family, and regional, economic success.

The Value of Shared Learning

The Pickaway County Community Foundation in Ohio, established in 2001, demonstrates the importance of shared learning among foundations interested in becoming more strategic in their grant making – and more focused on community development philanthropy. Pickaway County spans from the suburbs of Columbus to rural Appalachian Ohio. Like many rural places, it lost most of its manufacturing jobs in the early 2000s, and clings to a strong but changing agricultural base. In 2006, 12 residents, including half from the foundation's Board, traveled to Nebraska to learn from rural communities that were working to connect community foundations and economic development. The trip created strong enthusiasm for new planning and visioning for the foundation and Pickaway County. The result? The foundation and the community identified three "fields of interest" – education, leadership, agriculture. The Pickaway Competitiveness Network was established and funding for each of the three priority areas was secured. This strategic focusing of foundation grant making on areas of importance to the community is at the core of community development philanthropy. The trip to Nebraska, and learning from the experiences of communities there, was the inspiration Pickaway County needed to take these strategically important steps.

Amy Lake, *The Story of the Pickaway County Community Foundation as Told by Shirley Bowser*, Center for Rural Entrepreneurship, May 2010, http://www.energizingentrepreneurs.org/site/images/research/es/seoi/seoi21.pdf

Growing Capacity in Appalachian Kentucky

Perry County is located in Appalachian Kentucky, tucked away in the southeastern part of the state. About 28,000 residents call Perry County home, and almost 28% are living in poverty. It is rich in natural beauty but has struggled to build the kind of wealth that can reverse decades of decline and despair. Within this environment, however, there has emerged a commitment to collaboration among the non-profit service providers that are serving the county, including the Community Foundation of Hazard and Perry County, created in 2006. The foundation's mission appears defined by the principles of community development philanthropy – "to support collaborative work in our community around a common vision that enhances the lives of all our citizens and to create a permanent endowment to serve as a catalyst and resource to respond to changing community priorities."[19]

The commitment to collaboration comes from the leadership of the foundation, Gerry Roll. Before becoming the first Executive Director of the foundation, Roll was Executive Director of Hazard Perry County Community Ministries. She learned the importance of collaboration through this work, recognizing that there were more than enough problems to go around in her region. She formed new partnerships and learned the value of appealing to each organization's self interest – helping to identify what was in it for them by becoming partners to address broader needs in the region, from childcare to health to homelessness.[20]

The Foundation relies on an ongoing and comprehensive process of community engagement to establish its vision. The 2020 Coalition is comprised of diverse leaders from across the community and has helped the Foundation target issues including education, assets, culture and recreation, environment, health and well being. The community foundation can use this input but also take a long term look at supporting the rural region and can help the community find common ground between related, but sometimes conflicting interest areas.

After four years of effort, the Foundation has made important strides. The asset base has grown and they made $50,000 in grants to community organizations in 2009-2010. They succeeded in bringing grant dollars from outside the community to address local needs. The donor base increased by 500% – all significant achievements for a community foundation operating in one of the poorest regions in the country.[21] What is also evident, however, is the give back ethic that is being created and nurtured in Perry County. A few quotes from the 2009-2010 annual report emphasize the embedded nature of this ethic and the power it has to move donors in support of their community:

- **We've seen a lot of the riches leave Eastern Kentucky in its minerals and its people, so I want to give back to an area that has been so good to me!**
- **Giving for the immediate need is a wonderful thing to do. However, giving for the future, and in ways that promote building a healthier community, is of great importance. Our Community Foundation allows us an opportunity to be a part of securing the future of Perry County (and southeast Kentucky) for all of us.**
- **My philosophy in life compels me to move beyond my own self-interests, in search of opportunities to help others.**

Final Thoughts

These stories of community development philanthropy serve to illustrate the important connection between charitable giving and economic development. For rural regions, this connection is particularly important as more traditional sources of support for economic development become more constrained. However, we offer these stories not just to inspire but to *inspire to action*. Actively engaging in community development philanthropy requires a better understanding of the wealth creation process and the critically important role that entrepreneurs play as the link between regional assets and wealth creation opportunities. The final section of this book addresses both these topics, with examples drawn from the Center's field-based learning over the past 10 years.

1 The Rural Development and Community Foundations Initiative Brochure, Rural Economic Policy Program, The Aspen Institute, http://www.aspencsg.org/rdp/_documents/brochure.pdf. The Rural Economic Policy Program is now called Community Strategies Group.

2 The Rural Development and Community Foundations Initiative Brochure.

3 To learn more about the learning network and the tools developed, go to http://www.aspencsg.org/rdp/index.php.

4 What is Rural Development Philanthropy?, The Rural Development Philanthropy Collaborative, 2010, http://www.aspeninstitute.org/policy-work/community-strategies.

5 What is Rural Development Philanthropy?, The Rural Development Philanthropy Collaborative, 2010, http://www.aspeninstitute.org/policy-work/community-strategies.

6 Vaughn Grisham and Rob Gurwitt, *Hand in Hand: Community and Economic Development in Tupelo*, A Case Study, The Aspen Institute, 1999 (second printing 2004), p. 17. Much of this section is drawn from this case study which readers are encouraged to read in its entirety for more information about this remarkable journey.

7 Vaughn Grisham and Rob Gurwitt, p. 14.

8 Vaughn Grisham and Rob Gurwitt, p. 61.

9 Vaughn Grisham and Rob Gurwitt, p. 27.

10 http://www.cdfms.org/renasant/?id=189

11 For more information on HTC, go to www.htccommunity.org.

12 HTC in McCook, Nebraska Community Foundation, http://www.nebcommfound.org/affiliated-funds/community-stories/read/htc-in-mccook.

13 Amy Lake, *Bonnie Hildreth and the Story of a Community Foundation in Michigan*, Center for Rural Entrepreneurship, April 2010, http://www.energizingentrepreneurs.org/site/images/research/es/se/se27.pdf.

14 To learn more about the Barry County Community Foundation, go to www.barrycf.org.

15 Some of the material in this section is draw from insights shared by Nancy Straw, President and CEO of WCI, in an interview with Nancy Stark, formerly with CFED, for a research project supported by the Center for Rural Entrepreneurship as part of the Ford Foundation's Wealth Creation in Rural Communities initiative.

16 To learn more about RuFES, go to The Annie E. Casey Foundation website, http://www.aecf.org.

17 To learn more about WCI, go to www.wcif.org.

18 *By the numbers: Using Data to Drive Action on Behalf of Children and Families*, The Annie E. Casey Foundation, 2007, http://www.aecf.org/upload/PublicationFiles/StrengtheningFamilies.pdf.

19 Annual Report 2009-2010, Community Foundation of Hazard and Perry County, http://www.commfoundation.org/images/CFAnnualReport2010a.pdf.

20 Pei Yao-Chen and Jonathan Walters, *Serving Connected Needs in Appalachia: Homegrown Help in Appalachia*, Research Center for Leadership in Action, New York University's Wagner Graduate School of Public Service, 2005, http://wagner.nyu.edu/leadership/tools/files/HPCCM.pdf.

21 Annual Report 2009-2010.

CHAPTER 7

The Wealth Creation Process

Understanding community development philanthropy, both in theory and in practice, is an important first step for communities interested in creating pools of development resources that can supplement increasingly constrained public sector funding. While philanthropy cannot replace the core functions of government, it can provide the necessary institutional structure and resources to enable the process of community development. But, it is not enough to focus on the *process* of community development philanthropy. Rural regions in particular also need to figure out how to *create and retain more wealth* that can fuel both give back and community building. To do that, community leaders need to have a better understanding of the wealth creation process – its foundational elements and the importance of cultivating a give back ethic. Those topics are the subject of this chapter. The wealth creation process, in turn, is driven by the entrepreneurial energy, creativity and skills that are resident in each region. We will turn our attention to understanding this important driver of wealth creation in Chapter 8.

Foundations of Wealth Creation

The wealth building process for communities and nations is complex and dynamic. Within this complexity, however, are critical leverage and tipping points that offer opportunities to change wealth creation in a regional context. For community and regional leaders, understanding this process and how it can be energized and supported is a key first step in designing development strategies that move beyond a narrow, more traditional focus on job creation to a more holistic development approach.

The first critical step in understanding this process is to define what we mean by *wealth*. We tend to associate wealth with financial assets, and indeed the focus of the TOW scenario analysis is on understanding the dollars that will flow from one generation to the next. However, the process of wealth creation is really about creating *multiple forms of wealth* – the skills and abilities of individuals, creativity and innovation, infrastructure, natural resources and amenities, networks of people who get things done, political influence and voice, and financial wealth that is directed by local people. While we may focus our economic development efforts on generating financial wealth, the process of creating that financial wealth is dependent upon increasing the stock of the other components of wealth at the same time.

It is also important to distinguish between the creation of *community* wealth and the creation of *individual* wealth. For communities, building wealth is a process of asset-based development – identifying the assets that can be the inputs to a development process, connecting those assets to demand, and building the organizational capacity to respond. It is also dependent on the creation of institutional capacity to capture wealth for community betterment. The creation of individual wealth is more dependent on the skills and capacities of individuals, and to some extent their families – creativity, innovation, education. However, a nurturing environment can facilitate and strengthen this process. Building wealth requires attention to both the community and the individual wealth building processes, and the many parallels between them.

Creating Community Wealth. In the mid-1990s, through the work of Kretzmann and McKnight, asset-based development became an increasingly accepted way of looking at the process of community economic development.[1] Asset-based development is fundamental to community wealth building in three ways. One, it is an appreciative process; it looks positively at what capacities communities and regions have rather than focusing solely on constraints. It asks what communities have to build upon rather than focusing on the holes that need to be filled or the deficits faced. These assets are the ingredients with which wealth is built over time. Two, asset-based development is locally driven. It is based on the community's vision – what it values and wants for the future – rather than an agenda imposed by outside interests. The process depends upon and is directed by the creativity, passion, talents and entrepreneurial spirit of local residents and leaders. These traits are as important to the process of building community wealth as they are to building the wealth of individuals. Three, asset-based development is a shared responsibility. It is not something one organization can do on its own, whether an economic development corporation, local government, or a community-based organization. It requires collaboration and relationship building. The process helps to build social and political capital, key components of community wealth overall.

In the mid-2000s, the community capitals framework added additional insight to the process of building community wealth.[2] By focusing on the need to build multiple forms of capital, or wealth, Flora and others articulated a framework for turning assets into capital. Assets, when invested in ways that create additional resources in a community or region, become capital. For example, "a community rich with elders has assets in historical knowledge, a diverse population, and a base of information about the past and wisdom for the future. If a mentoring program is developed with the elders and youth, then the asset is invested, becoming capital."[3] The community capitals framework has become a planning tool for considering the impact of development or investment decisions on multiple forms of wealth. For example, a decision to support the location of a new manufacturer in a community could increase the skills of local residents who are trained to work in the plant while also degrading the natural environment through pollution. The framework helps local decision makers think more broadly about how wealth is, or is not, created in the community by the economic development decisions that are made.

More recently, the Ford Foundation has supported a new approach to creating wealth particularly in distressed rural communities. In addition to the principles of building on assets, encouraging collaboration and focusing on the creation and measurement of multiple forms of wealth, Ford's work goes beyond asset-based development and community capitals in three important ways:[4]

- It takes a systems perspective, recognizing that efforts to create wealth need to focus not only on creating multiple forms of capital but also on the interactions between them. The approach is guided by a principle of "do no harm" – that you do not build financial capital, for example, by destroying natural capital.
- The wealth creation approach intentionally connects rural communities to the larger economy by connecting with demand – demand for the products and services derived from rural assets. These connections are based on the development of *value chains* – business models that are built on a series of mutually beneficial relationships between participants all along the chain, from producers to processors to wholesalers to consumers. Through the construction of value chains, such as sustainable agriculture or certified sustainably produced forest products, lower-wealth areas are connected to higher-wealth areas in ways that benefit both regions and create more wealth.
- The approach emphasizes the need to create new institutional arrangements for keeping wealth local. It is not enough to create more wealth if some of that wealth is not owned by the community and used for the benefit of the community. As discussed throughout this book, community foundations are one organization that has the capacity to capture some of this wealth for community betterment. However, cre-

ating institutional capacity is not sufficient. It is also important that community foundations create strategies for making investments in the community that reinforce the wealth building cycle. In short, they need to practice community development philanthropy.

Creating community wealth requires building on assets, making strategic investments that turn those assets into multiple forms of wealth, and then creating the capacity to capture and institutionalize a portion of this wealth for individual and community betterment. In this way, a virtuous cycle of wealth creation is possible even in the most economically distressed rural regions. Foundational to the process of building community wealth is increasing the assets and wealth of the individuals that are committed to that place.

Creating Individual Wealth. Just as community wealth building is an asset-based process, an individual's ability to create wealth starts with an initial set of assets – personal attributes, inherent creativity, family support and circumstances, financial resources. Key among the personal attributes that form the foundation for individual wealth building are motivation, or drive, and passion. Motivation can come from an inner drive, a desire to achieve beyond humble beginnings or to overcome some adversity, or a need to live up to the expectations of family and peers. Passion, on the other hand, is deeply felt and personal – it comes from a commitment to a particular direction or endeavor. It is what propels an entrepreneur forward, from a nascent idea to a successful business, and what sustains those who fail and try again.

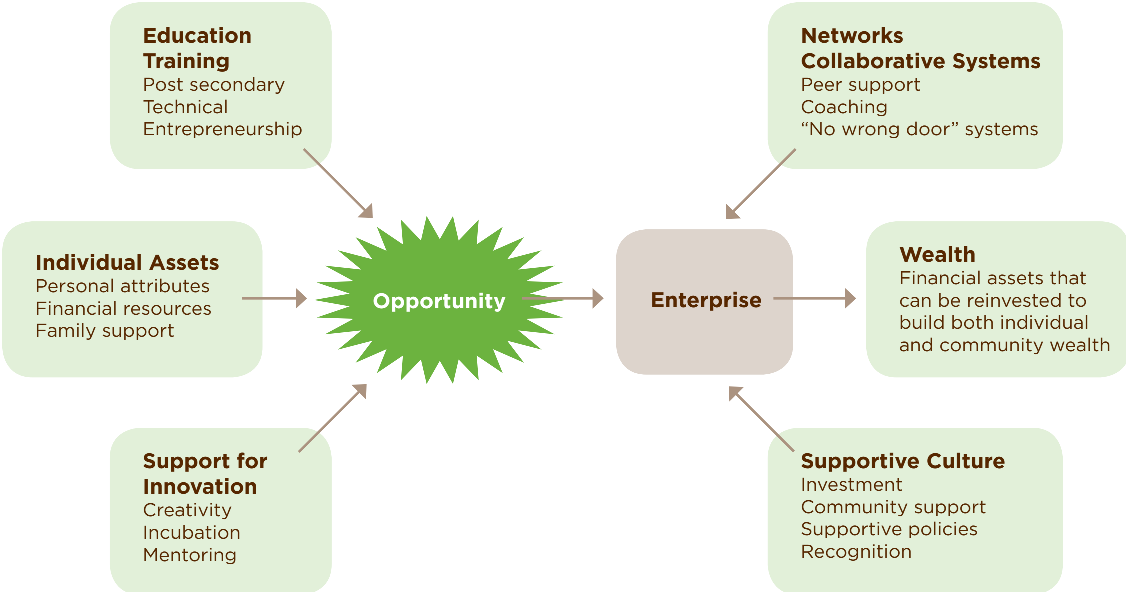
In entrepreneurship circles, there is an ongoing debate about whether entrepreneurs are made or born – whether you can become an entrepreneur through skill building or whether it is, essentially, in your genes. While most entrepreneurship development practitioners accept that entrepreneurs can be created with the right set of supports, there is also evidence that your exposure to entrepreneurship, through family and even co-workers, can play a part in decisions to take an entrepreneurial path in life.[5] This underlying set of experiences, then, becomes another part of the asset mix from which you are able to build wealth over time.

Assets are the starting point to the process of individual wealth building. However, the real engine of the wealth creation process is an opportunity or at least a belief that an opportunity exists. A hallmark of the American experience is the belief that, with hard work and initiative, opportunities can be seized and realized. By the millions, people throughout the world have come to America because of this belief and history is full of the achievements of immigrants who have turned opportunities into wealth for themselves and their families. There are also far too many examples of what happens in communities that lack opportunity or hope for the future. The despair and lack of vision for a better tomorrow can be overwhelming and inhibit the ability of individuals and families to build wealth over time. One of the key leverage points for communities in the individual wealth creation process is helping to create a stronger sense of hope and opportunity for community residents through such initiatives as Individual Development Accounts (matched savings plans), first-time home buyer tax credits, scholarships for education and training, and microenterprise development programs.

Creating Wealth through Enterprise Development. While the combination of assets with an opportunity can put an individual on the path to wealth creation, there are a number of factors that influence the success and potentially the magnitude of wealth creation in a particular place. Our experience at the Center suggests that enterprise development plays an important role in wealth creation. Chapter 8 will explore the importance of entrepreneurship to individual wealth creation, and the ways in which communities across the country are supporting the process of enterprise development as one way of growing both the economy and rooted wealth. Just as the TOW scenarios have stimulated conversations about the potential for wealth capture, this wealth creation process suggests possible intervention points for community and regional leaders, as discussed later in this chapter. Figure 26 provides a simple illustration of wealth creation through enterprise development.

Education and Training. Education has proven to be a remarkably powerful tool in enabling and driving progress. As described earlier in this book, educational attainment is a primary indicator of personal success as measured by household wealth. Education and training continue to be pathways from poverty to expanded personal choice and success. It is important to note that education today is so much more than the "3 Rs."True education embraces how to lead, work in teams, and think creatively, as well as an understanding of the global nature of the world today that is acquired through life experiences rooted in travel, meeting other kinds of people and discovering the full range of art, culture and landscape.

Figure 26 - Creating Wealth through Enterprise Development



Support for Innovation. There is growing consensus that the future of the American economy lies in our ability to support innovation. In the face of a continued slow recovery from the Great Recession, the word has become a standard feature of political speeches on both sides of the aisle. Fareed Zakaria summarized the importance of innovation in this way:

> America's future growth will have to come from new industries that create new products and processes. Older industries are under tremendous pressure. Technological change is making factories and offices far more efficient. The rise of low-wage manufacturing in China and low-wage services in India is moving jobs overseas. The only durable strength we have – the only one that can withstand these gale winds – is innovation.[6]

From the perspective of building wealth, providing support for innovation means encouraging creativity. Richard Florida and others have researched and written about the growing importance of creativity and the creative class to the rise of the knowledge-based economy. But just fostering creativity is not sufficient; creativity must lead to innovation and ultimately commercialization of ideas for new wealth and prosperity to be realized. Supports such as incubation and mentoring can be important tools for moving creativity from the mind to the marketplace.

As assets and opportunity, combined with support for education/training and innovation, are networked in meaningful ways, new wealth creation becomes possible through the vehicle of enterprise development. The importance of entrepreneurship to the wealth creation process was evidenced earlier by the strong positive relationship between self-employment and wealth holding in the U.S. (chapter 2).

Networks and Collaborative Systems. Enterprise development requires the motivation and passion of the entrepreneur, among other assets, unleashed in pursuit of an opportunity, but these alone are not enough to achieve success. Building a business requires experience, gained in the trenches and shared by peers. Malcolm Gladwell talks about the 10,000 hour rule – when someone has invested 10,000 hours into learning how to do something, they reach a proficiency tipping point.[7] While spending 10,000 hours does not guarantee that one will become a world class architect, engineer or sports figure, it does suggest that gaining deep and extensive experience enables a level of proficiency that, in our example, can transform motivation and passion into the knowledge necessary to launch and grow a successful venture. This knowledge and experience can be gained through peer networking, coaching relationships with experienced entrepreneurs, and connecting to service providers who can help to shorten the learning curve. Some entrepreneurs will use this experience to create the best coffee shop in town and others will create transformative ventures like Google, Microsoft, or Apple.

Supportive Culture. Entrepreneurs do not create businesses in a vacuum – they are affected at every turn by the culture within which they operate. The U.S., with its relatively stable and business-friendly legal and regulatory systems, has demonstrated a consistently strong environment for entrepreneurship compared to other developed countries.[8] There are regions across the country that are notable for their support of start-up activity and nurturing new enterprises – Silicon Valley in California, Research Triangle Park in North Carolina, and Austin, Texas. And there are suburban and rural communities that have achieved recognition for their support of entrepreneurs, including Littleton, Colorado and Fairfield, Iowa.[9]

A supportive culture goes beyond regulations and infrastructure however. A community culture of entrepreneurship recognizes and appreciates what it takes to create a new business – hard work, passion, commitment, willingness to fail and try again. It is a culture that celebrates the personal success that can come with business success, and the new wealth that is created. And, it encourages – even *requires* as the Tupelo, Mississippi experience attests – a spirit of giving back to support the further development of this culture over time, enabling communities and regions to renew themselves economically and socially.

Connecting Individual and Community Wealth Creation

For the wealth creation process to become robust and sustainable, it must be nurtured and supported, and there must be a strong connection between individual and community wealth. If individual wealth is created through enterprise development, as described earlier, there must be vehicles for capturing some of this wealth for community betterment. Chapters 5 and 6 explored the importance of community development philanthropy as one mechanism for capturing some portion of the individual wealth created over time in a community or region, and investing in ways that increase wealth for individuals, families and the community.

Using the TOW scenario analysis demonstrates the potential behind strategies to capture even a small portion of individual wealth created in particular places. As one example illustrates, this potential is great:

> In a typical American community with 25,000 residents, the 50-year transfer of wealth potential is $2.5 billion. This is not a particularly wealthy community but average with respect to its level of household wealth. If just 5% of the wealth created over this period were given back to the community via endowment building, a foundation of over $125 million could be grown. A foundation of this size, in a community of this size, could generate conservatively $6 to $10 million each year in perpetuity – money that could be invested for community betterment. Imagine the power of having such an institution in your community and what this kind of annual investment could mean in supporting community and economic development projects.

These transfer of wealth numbers represent *potential*; to realize this potential will require the cultivation of a strong spirit or ethic of giving back in communities and regions across the country.

Cultivating a Give Back Ethic. A give back ethic moves people from ownership of their personal success to embracing the value and responsibility of supporting the very systems that enabled their success. We see this give back ethic deeply cultivated within systems of higher education. Universities and colleges have built elaborate approaches that ensure alumni remain connected and are aware of give back opportunities. Collegiate sports, the arts, humanities and engagement in development provide case statements that can motivate alumni to contribute their time, talent and wealth. Through the endowments this give back culture has built, we have witnessed the growth and development of higher education in this country, and its expanded impact both here and abroad.

Community foundations across America are beginning to learn these lessons and deploy increasingly sophisticated give back strategies. As we have worked with foundations across the country, there appear to be three key elements that are essential to stimulating and growing a give back ethic – engagement, expectations, and opportunities.

Engagement. Growing a philanthropic culture requires community engagement. Individuals who feel they are an important part of a community, whether through participation in a small informal social group or a larger formal organization, take ownership of their community. This ownership creates the potential and the drive for active engagement and, ultimately, give back. The desire for engagement extends to a community's youth as well as adults. Through the Center's youth engagement work, there is evidence that the attitudes of young people change with active and appropriate engagement in the community. They begin to see themselves as a real part of the community, and typically develop a far more favorable view of the community as a place to live and work. Ultimately, youth are more inclined to return home as engagement increases. These lessons suggest that communities can build engagement strategies that will grow social capital, expand civic capacity and promote give back that generates development resources over time.

Expectations. Modeling values early in life creates lasting impressions. Children who grow up in families and communities that actively encourage giving back of time, talents and treasure are likely to embed these values into their lives going forward. At the same time, adults, like children, are not immune to peer pressure and, as an expression of social norms, this pressure can be important and valuable. The simple act of a respected couple leaving part of their life's work and wealth to the community through a legacy gift sends a powerful message. With each such gift, the community creates an expectation that giving back is important and something that *everyone* should do, according to their ability. As the experience in Tupelo, Mississippi suggests, expectations can play a powerful role in encouraging a "community culture" of giving back.[10]

Opportunities. For the ethic of giving back to truly root and become robust, community leaders must assume responsibility for creating a persuasive and broadly shared vision for the future, presenting to donors how their gifts can build a better community. The case statement for giving back does not stand alone; it must be supported by a track record of sound management and accountability. Compelling and well articulated opportunities for give back become powerful motivators and can increase and broaden the range of philanthropic giving the community experiences. Images of a new library with space for all – children to elders – may spark the imagination of one set of donors; a youth entrepreneurship camp and business plan competition may excite another. Communities must invest in processes of public visioning, project development and communication of opportunities for giving back; there are no short cuts. This process creates passionate and informed advocates who can illustrate and share opportunities with donors, and ultimately leads to greater success with both endowment and community building.

Creating an Ethic – Lessons from the World of Recycling

While the idea of recycling is old – whenever resources become constrained, we tend to engage in recycling to make due – the ethic of recycling is relatively new. The environmental benefits of recycling are pretty straight forward. By recycling what we have already produced, we dramatically decrease the environmental footprint and impact as compared to new product development. In spite of the relatively clear value associated with recycling, it moved from an activity associated with environmentalists to an ethic as it became more mainstream. Children across America took recycling lessons and ideas home from school, 4-H Clubs and Scouts. They engaged parents, grandparents and neighbors in recycling. The industry responded with recycling symbols and broader opportunities to recycle. Ultimately recycling reached an economic and social tipping point and it became widely accepted and adopted.

Considering how quickly recycling transitioned from an isolated idea to a mainstream ethic, there are lessons to be learned and applied to cultivating an ethic of giving back. During the development of the first state-level transfer of wealth study for the Nebraska Community Foundation in the 1990s, discussions were held with board members about possible goals for community give back. True to the conservative and practical culture of Nebraskans, someone suggested a 5% give back rate and it took root. As more and more community leaders explored this rate of giving back, it assumed credibility as reasonable to achieve yet significant in its potential impact. Just as with the concept of recycling, the idea of setting a community give back goal became accepted practice. Local residents understood the rationale for giving back – communities nurture and enable individuals and families to succeed; they provide education, recreation, health care, markets and workers for factories and farms. Given all that communities provide, giving back just 5% of the wealth grown in each place made intuitive sense. A give back ethic was born.

Final Thoughts

Our transfer of wealth work suggests a significant and looming opportunity – or threat – for regions across the country, particularly in rural places, as the wealth created by the current generation passes to the next. Equally important, however, is a discussion about how to grow and retain wealth in these regions – to increase the multiple forms of wealth or capital that are necessary ingredients for resilient, thriving communities and regions. Based on the Center's work over the past decade, creating more wealth, particularly in persistently poor rural communities and regions, will require focused efforts to build the assets, broadly defined, of individuals, families, and communities; to support the entrepreneurial aspirations of rural people, particularly those entrepreneurs who launch businesses with growth potential; to establish institutionalized structures for capturing some component of this rooted wealth; and to create strategies for making investments in the community that reinforce the wealth building cycle.

The process of building individual wealth intersects with the process of growing community wealth in two important ways. One, the community has an important role to play in helping individuals and families create wealth. For example, support for individual asset building strategies such as Individual Development Accounts can build wealth at the mouth of the pipeline by making possible investments in education, home ownership and business ownership/entrepreneurship.[11] Investments in entrepreneur-focused economic development strategies provide the support infrastructure that will encourage innovation and make it possible to help some entrepreneurs grow from micro to Stage 1 and 2 businesses, creating both individual and community wealth. Two, by establishing an ethic of giving back and building institutional capacity through a community foundation, the community creates both the rationale and vehicle for capturing a portion of the individual wealth created in place. Both roles for the community are essential if a virtuous cycle of wealth creation is to take hold in rural regions across the country.

1 John P. Kretzmann and John L. McKnight, *Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets*, Institute for Policy Research, Northwestern University, 1993.

2 Mary Emery, Susan Fey, Cornelia Flora, Using Community Capitals to Develop Assets for Positive Community Change, *CDPractice*, Issue No. 13, 2006, http://www.comm-dev.org/commdev/collection/2006%2013.pdf.

3 Mary Emery, Susan Fey, Cornelia Flora, p. 3.

4 Yellow Wood Associates with Deborah Markley, Wealth Creation in Rural Communities: A New Approach, http://www.yellowwood.org/WCRC%20Short%20Description.pdf.

5 Ramana Nanda and Jesper B. Sørensen, Workplace Peers and Entrepreneurship, Working Paper, #08-051, Harvard Business School, 2010, http://www.hbs.edu/research/pdf/08-051.pdf.

6 Fareed Zakaria, The Future of U.S. Innovation, *Time*, June 5, 2011, http://www.time.com/time/nation/article/0,8599,2075226,00.html#ixzz1R94pet00.

7 Malcolm Gladwell, *Outliers: The Story of Success*, New York: Little, Brown and Company, 2008.

8 See Global Entrepreneurship Monitor study reports on entrepreneurial activity in the U.S. over time; www.gemconsortium.org.

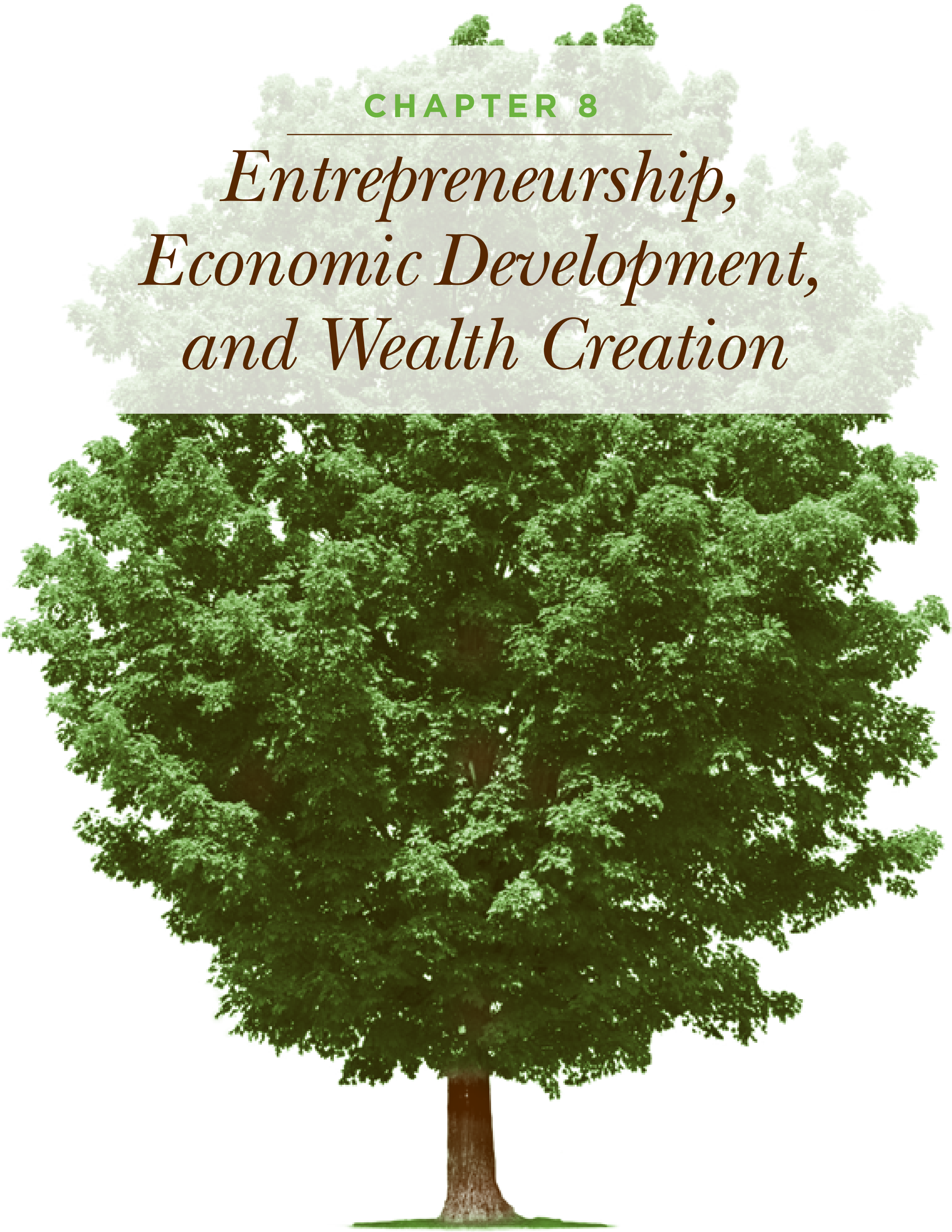
9 William Lambe, Fairfield Iowa Case Study, *Small Towns Big Ideas*, School of Government, The University of North Carolina at Chapel Hill and the North Carolina Rural Economic Development Center, 2008, http://www.sog.unc.edu/programs/cednc/stbi/cases/pdf/fairfield.pdf; IEDC, Economic Gardening: Littleton Colorado, Creating Quality Jobs: Transforming the Economic Development Landscape, March 2010, http://www.iedconline.org/downloads/iedc_quality_jobs.pdf.

10 Vaughn Grisham and Rob Gurwitt, p. 60.

11 For those interested in learning more about effective strategies for building individual assets, we suggest starting with CFED's website – www.cfed.org. A good overview of rural asset building can be found in Roy C. Lopez, Asset Building Taking Root in Rural Communities, *Banking and Community Perspectives,* Federal Reserve Bank of Dallas, Issue 1, 2011, http://dallasfed.org/ca/bcp/2011/bcp1101-1.pdf.

CHAPTER 8

Entrepreneurship, Economic Development, and Wealth Creation



Beginning with Marshall, economists have talked about the importance of entrepreneurs to economic growth and innovation. Baumol wrote most persuasively about the theoretical role of entrepreneurs, suggesting that accumulation of factors of production – inputs like land, labor and capital – was insufficient to explain economic growth. Instead, he points to entrepreneurs as foundational, combining other inputs in ways that explain long term economic development.[1] Drucker takes this further, making the innovation-entrepreneurship connection, by noting that "innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth."[2] At the same time, the power of American capitalism over the decades has been its ability to establish the conditions within which entrepreneurs have created both personal and community wealth. Consider the likes of John D. Rockefeller, building Standard Oil into a wealth generating engine, and Andrew Carnegie turning his entrepreneurial skills to the building of a steel empire. More recently, the stories of Warren Buffet, Bill Gates, and Ted Turner, among others, have provided shining examples of the wealth-creating success that capitalism fosters.[3]

Another legacy and living tradition of American capitalism is philanthropy and its ethic of giving back. In the late 19th and early 20th centuries, the titans of industry – Rockefeller, Carnegie, Kellogg, Ford – transitioned from reshaping the American industrial and economic landscape to becoming the face of American philanthropy. They turned their vast personal fortunes to a variety of causes, notably education and, for Carnegie, the establishment of libraries even in small, rural communities. They endowed the foundations that now bear their names and that have been transformative in their support for research, education, social justice, health care and other worthy causes. They helped to institutionalize American philanthropy in the 20th century.

While the face of American philanthropy continues to grow and change, it remains driven to a large extent by today's successful entrepreneurs. In the most visible expression of this drive, Warren Buffet and Bill and Melinda Gates have challenged America's billionaires, and others, to give away 50% of their personal wealth to philanthropic causes during their lives or at their deaths. Buffet began this movement by making a significant gift to the Gates Foundation, the largest philanthropic foundation in the world, based on the mid-2011 value of its endowment. Some who have pledged are the successful entrepreneurs of the past half century, including Buffet, Rockefeller, Pickens, Turner, Icahn; others reflect newer entrepreneurial success including Gates, Zuckerberg and Khosla.[4]

In spite of the strong theoretical connection between entrepreneurs and economic growth, and the very real link between entrepreneurial success and philanthropy, in practice, economic development strategies in the U.S., and particularly in rural America from the 1960s to 1980s, have focused on recruiting industry from outside rather than encouraging the start up and growth of local entrepreneurial talent. While the returns from these strategies did bring jobs to some parts of rural America, their capacity to create rooted wealth for rural people and resilience for rural places was limited. Factories closed or moved off-shore; energy companies extracted resources and then moved on; wealth flowed to people and organizations outside rural America.

Faced with the limited success of traditional approaches to economic development, entrepreneurial leaders in communities and regions across America began to experiment with homegrown approaches to economic development. The Center has spent 10 years learning from these early innovators and distilling the elements of successful practice. In this chapter, we share insights into how entrepreneurship can be a pathway to wealth creation and the implications of our changing economic circumstances on this process. We also talk about what communities can do to support the process and set the stage for significant wealth creation and capture in the future.

Entrepreneurship as a Pathway to Wealth Creation

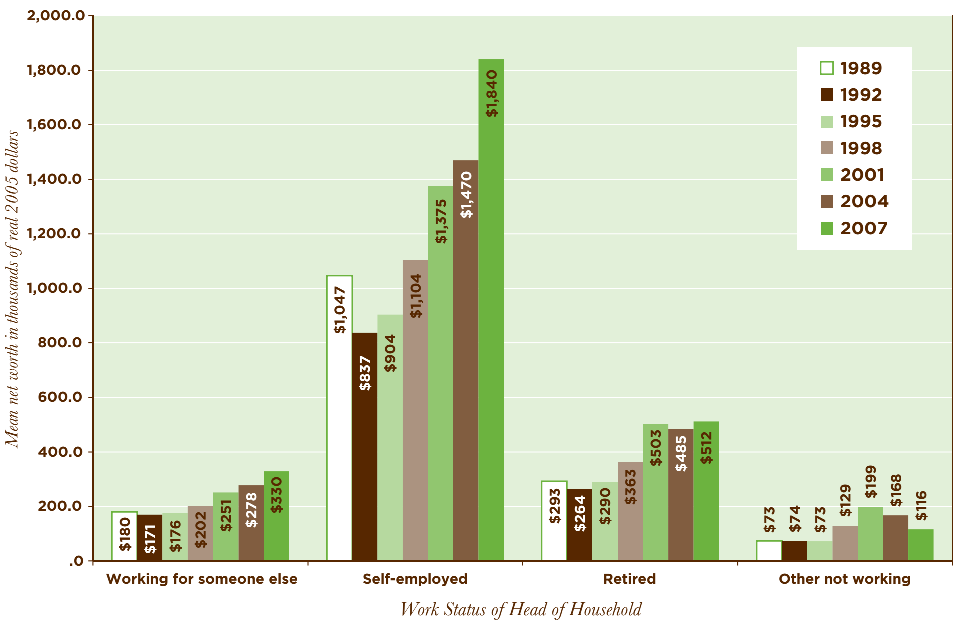
Based on data collected by the Federal Reserve System, *how* we make a living matters as a pathway to asset accumulation and household wealth. Using 2007 data, the latest available, Table 3 (next page) provides a pre-Great Recession picture of mean net worth by a number of key demographic indicators. It makes sense that those with the most wealth in America would have the highest mean net worth. And, logically there is a connection between high *income* earners and high *net worth* households. Most interesting, however, is the strong showing of self-employed Americans – ranking third highest with mean net worth of $1.84 million.

Table 3 - American Household Wealth by Key Demographic Variable, 2007

Variable	Mean Net Worth
Top 10% of Households by Net Worth	$3,736,000
Top 10% of Households by Income	$3,105,000
By Type of Work - Self-Employed Americans	*$1,840,000*
Occupation – Professionals	$1,048,000
Education – College	$1,032,000
Age – 65 to 74 Cohort	$954,000
Family Status – Couples without Children	$756,000
Home Owners	$732,000
Race – White Households	$651,000

Figure 27 (reprinted from Chapter 2) provides another illustration of the connection between entrepreneurship and wealth creation. Putting aside major sports figures or highly skilled professionals, these data suggest that the most likely pathway to financial success is business ownership. For every successful entrepreneur, there are family members, friends and investors who share the risks and the wealth created by these successful innova-

Figure 27 - Average U.S. Net Worth by Work Status



Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007 tions and ventures. As increasing numbers of Americans with talent and motivation struggle to find good jobs working for others, the potential for a new cycle of entrepreneurial ventures and wealth creation may be dawning in America today.

To gain better clarity about the connection between entrepreneurship and wealth creation, however, we must answer an important question – who is an entrepreneur? For many Americans, the image of an entrepreneur is one of Bill Gates, Steve Jobs, or Oprah Winfrey – individuals who have built large and rapidly growing business empires. The entrepreneurial landscape is more complex than those images suggest and reflects a continuum or spectrum of entrepreneurial talent – from the micro entrepreneur or self-employed start up to an expanding entrepreneurial venture on Main Street or in the business park at the edge of town.

This landscape also differs based on the motivation of the entrepreneur. The Global Entrepreneurship Monitor project has for years distinguished between two kinds of entrepreneurs – necessity and opportunity. Necessity entrepreneurs are those who "are pushed into entrepreneurship because they need a source of income." Opportunity entrepreneurs "are pulled into entrepreneurship because they recognize an opportunity that can improve or maintain their incomes or increase their independence."[5] Regardless of their motivation, or the images we have, entrepreneurs have a common set of traits – they are the creative, innovative, opportunity-seeking individuals who manage risk and bring together the resources needed to build a business. They turn assets in a community or region into viable economic enterprises. And in the process, they build wealth for themselves and their communities.

The Context for Entrepreneurship and Wealth Creation

As we have suggested throughout this book, post-Great Recession America will reflect a reset of both the economy and society that has important implications for growing entrepreneurs and wealth in communities and regions, rural and urban. It is within this emerging environment that community and regional leaders must continue to evolve effective strategies for supporting entrepreneurial talent and generating new wealth. We see two significant trends in this new environment.

Rising Numbers of Necessity Entrepreneurs. The rate of necessity entrepreneurship increased dramatically during the recession – growing from 16.3% of new U.S. ventures in 2007 to 24.7% in 2009, according to Global Entrepreneurship Monitor surveys.[6] In addition to the current recession, two other forces support this rise in necessity entrepreneurship. Corporate downsizing, and the shedding of "legacy" workers, appears to be not just a function of the current economy but a longer term trend. Employment growth among America's largest employers began stagnating before the 9-11 (2001) recession, declining 2% between 2000 and 2001.[7] These largest employers have continued to shed jobs throughout the decade – a trend that coincides with the movement among large corporations to outsource work. Jobs that in the past would have been filled by permanent, salaried-with-benefits employees are today contracted out, allowing firms to lower legacy worker costs and increase workforce flexibility.

As Thomas L. Friedman noted in a 2011 editorial, "what is most striking when you talk to employers today is how many of them have used the pressure of the recession to become even more productive by deploying more automation technologies, software, outsourcing, robotics – anything they can use to make better products with reduced head count and health care and pension liabilities. That is not going to change."[8]

This rising pool of necessity entrepreneurs and the structural changes in our economy post-recession may offer significant development opportunities for communities and regions. The question becomes how to help these entrepreneurs step onto a pathway from necessity to opportunity entrepreneurship so that their enterprises contribute to regional prosperity.

Moving Necessity Entrepreneurs onto a Pathway to Opportunity. How many of these necessity entrepreneurs have the potential to grow their businesses? At one extreme, Kauffman Foundation supported research finds that high growth, "gazelle" firms make up only about 1% of all businesses.[9] If this figure holds true for the growing pool of necessity entrepreneurs, we would expect to see an increase in the absolute number of these ventures. While these gazelles may be relatively rare, there are other types of break out ventures among these necessity entrepreneurs with the potential to impact regional competitiveness, investment, employment, tax base and spin-off development. The challenge is how to focus development efforts and identify those necessity entrepreneurs with the motivation and potential to become opportunity entrepreneurs and, with the right idea and support, growth or break out entrepreneurs.

Potential Impacts of Entrepreneurship on Communities

Building the right entrepreneur development strategy and the infrastructure to support that strategy is the key challenge to responding positively to these trends. If that can be accomplished, it will set in motion a wave of impacts in communities and regions that go beyond the wealth created by individual entrepreneurs and their enterprises.

Impacts on Investors and Employees. Successful local entrepreneurs create two other wealth generating impacts. They typically have family and friends who are investors in their businesses, particularly entrepreneurs with an orientation to grow and reach outside markets. These growth-oriented entrepreneurs often require more capital than they have themselves, and the "three F's" (family, friends and fools) are often a primary source of additional capital. When entrepreneurs succeed, they create wealth for these investors. Successful local entrepreneurs also create higher quality jobs with better compensation and benefits. Most homegrown entrepreneurs have an ethical desire to treat their employees as well or even better than they treat themselves. Their employees are, after all, their neighbors. Stories abound of entrepreneurs who pay their employees first and withhold personal compensation during growth or challenging times. Better jobs and incomes equate to stronger and wealthier communities.

Impacts on the Local Community. A community with strong, growing local businesses is more likely to have a strong tax base both in terms of sales taxes and property taxes. Rooted entrepreneurial ventures typically do not require or even request the kinds of tax abatements that larger outside businesses now demand. For most communities, this strong and growing tax base translates into investments in community infrastructure and quality of life amenities that are valued by entrepreneurs – strong schools, efficient municipal services, libraries, recreation and cultural activities. The result is a *quality of place* that is often as important to entrepreneurs as the local business climate. As these entrepreneurs continue to grow in place, generating new rounds of impacts on the local community, a reinforcing cycle is set in motion that creates the kind of entrepreneurial ecosystem found in hot spots as varied as Fairfield, Iowa and Austin, Texas.

Rooted Community Wealth. Rooted entrepreneurs often operate closely-held family businesses like farms, ranches, Main Street stores and local manufacturers. In many cases, these are multi-generational and deeply connected to the community. As they succeed over time, they generate wealth for themselves, their employees, their investors, and their communities. Our experience suggests that these entrepreneurs are most passionate about two things – their businesses and their communities. Connecting these two passions by creating an ethic of giving back is a key to generating rooted wealth. But, philanthropy is a learned behavior. Strategies that engage emerging successful entrepreneurs as leaders in our communities and as mentors to youth and other entrepreneurs cultivate the spirit of giving back. Celebrating successful entrepreneurs who give back sets a powerful example for entrepreneurs who are on the cusp of success, demonstrating in a very real way the shared responsibility to give back to the community that has supported you. This ethic is reflected best in the words of successful entrepreneurs and civic leaders, Jim and Elaine Wolfe, from Albion, Nebraska – "Give back to the community that helped you succeed!"

Just Imagine

From 2000 to 2008, there were 4.5 million more self-employed individuals in this country.* Using this as a reasonable proxy for necessity entrepreneurs, experience suggests that perhaps 10% of these necessity entrepreneurs have the skills, products, markets and capital to become opportunity entrepreneurs and begin to grow their businesses – 450,000 new opportunity entrepreneurs. If these new opportunity entrepreneurs had mean net worth equal to the average for self employed individuals ($1,840,000), we would see an additional $828 billion of wealth created by these entrepreneurs. Just imagine the potential behind these numbers if we are successful in growing these entrepreneurs in rural communities and regions, and cultivating a give back ethic to create the development resources for the future.

** http://www.youreconomy.org*

How rural communities and regions respond to the emerging and ever-changing context for entrepreneurship will determine to a large extent their capacity to create wealth in the future. If entrepreneurship is a pathway to wealth creation, then communities must craft strategies to support entrepreneurs who are committed to rooting themselves, their families and their businesses in rural America. Fortunately, the timing is right for creating more entrepreneurial rural economies for several reasons:

- Entrepreneurs have far greater freedom to live where they want, including in rural towns and the countryside, and still make a living in an increasingly outsourced economy. Improved broadband access, although by no means universal, has opened doors to entrepreneurs who want to enjoy the amenities that rural areas afford, without sacrificing career, income and wealth opportunities.
- The rising importance of sectors for which rural regions have an advantage – regional food systems, alternative energy, eco-system services – creates opportunities for entrepreneurs to build new ventures from their rural hometowns.
- Rural communities have long experienced a brain drain – loss of what are described as "the best and the brightest." Our experience suggests that those who are leaving are the ones with the greatest capacity for taking risk, eroding the community's fundamental capacity for innovation and embracing change. Social and economic renewal will require the creation of an entrepreneurial environment that attracts entrepreneurial "risk takers" who can become change agents in these rural places.
- There is a strong base of knowledge about building a more entrepreneurial economy drawn from the early adopters and innovators behind this work. Compared to even 10 years ago, the opportunity to learn from others and not have to start from scratch is a valuable jump start for community and regional leaders who are seeking a new approach to rural economic development.

The next section shares insights into how communities and regions can encourage entrepreneurship as a pathway to wealth creation.

Connecting the Strategic Dots

For most of the rural communities and regions the Center has worked in for the past 10 years, entrepreneur-focused economic development offers the greatest potential for achieving long term economic and community success. Perhaps this is a bold statement, but our experience in the field and the trends in the overall economy support it. If we accept the importance of entrepreneurship as a core development strategy, what are the key building blocks for such strategies to connect more directly to community wealth creation? Our experience suggests that communities and regions need to:

> **Grow an entrepreneurial development system**
> **Engage successful entrepreneurs**
> **Create opportunities for youth engagement and entrepreneurship**
> **Build community foundations and field of interest funds**

Grow an Entrepreneurial Development System. The importance of growing an entrepreneurial development system (EDS) has gained traction in local and regional development circles in recent years. Beginning with the work of Lichtenstein and Lyons, and continuing with the Kellogg Foundation's national demonstration projects, the benefits of a systems approach to supporting entrepreneurs have been well documented.[10] The Kellogg work focused on three important components of system building:[11]

- Creating a pipeline including youth entrepreneurship and helping entrepreneurs access the appropriate resources at each stage of business development
- Building systems of financial and technical support to better connect entrepreneurs to the resources they need and to better identify and fill gaps in the system so that needs do not go unmet
- Fostering favorable policy and community environments so that entrepreneurship becomes an important component of economic development and entrepreneurs are supported by the community

This development model embraces a comprehensive and strategic approach to supporting local entrepreneurial talent as a way to grow a community's economy. Increased numbers of successful entrepreneurs and their ventures – both for-profit and non-profit – create new investment, jobs and tax base that support quality of life amenities. More importantly, as communities grow clusters of successful entrepreneurs, they are positioned to be more economically relevant and competitive. A diverse collection of entrepreneurial ventures creates resiliency in local and regional economies. And, resilience is an increasingly important trait needed to weather the dramatic changes occurring in our dynamic global economy.[12]

Engage Successful Entrepreneurs. Successful entrepreneurs in a local community or region represent a form of treasure. They hold many forms of wealth – financial capital as the value of their business increases; intellectual capital embedded in their innovative products and services; individual capital reflected in their business skills and experience; social capital that grows as their networks expand. There are two important ways that this treasure can be tapped to benefit the broader community – as donors and as supporters of the EDS. Entrepreneurs should be engaged early in the design and implementation of both community development philanthropy and entrepreneurship strategies. The entrepreneurs' knowledge, their passion for the community, and their potential for give back of time, talent and treasure are critical assets that can energize and shape a development game plan. Communities should start with those successful entrepreneurs who are already well respected in the community and civically engaged. They can be a pathway to other entrepreneurs who may see civic engagement as a diversion. But peers can connect in a way that economic developers cannot, making the case for why engagement and give back are important.

Engaging successful entrepreneurs requires more strategic consideration than simply inviting them to the table. Entrepreneurs are directed, focused, task-oriented people. They often have little tolerance for process and are impatient to move from talking to doing. Once engaged and vested in the development process, however, they are likely to take ownership and become remarkable resources for the community. We see three critical roles that can successfully engage entrepreneurs – as *mentors, donors* and *investors*.

Mentors. Successful entrepreneurs have the potential to become *mentors* to emerging entrepreneurs or young people considering entrepreneurship as a career path. They can share their knowledge and help shorten the learning curve for other entrepreneurs by, for example, fine tuning a business direction, helping to identify skill gaps, providing a sounding board for ideas. By giving time and talent through mentorship, involvement in peer networks, and serving on the boards of emerging enterprises, entrepreneurs can become energized to contribute in new and expanded ways in support of community efforts.

Donors. As the data demonstrate, successful entrepreneurs have often amassed personal financial wealth, creating the potential to become *donors* and give back financially. They can become financial underwriters of the community's short-term strategy, such as by creating a fund to support youth engagement and entrepreneurship, and provide legacy gifts that endow community efforts long term. Experience in Nebraska, as well as other rural places, suggests that once entrepreneurs become more civically engaged, they will consider leaving part of their wealth to the community through both restricted and unrestricted gifts.[13]

Investors. Successful entrepreneurs also represent a potential pool of angel *investors* who can provide critical seed capital for other entrepreneurs and each other.[14] They are often sophisticated investors and they understand business. Developing entrepreneurs as angel investors organically can provide the community with a competitive edge since providing access to a range of capital resources, including start-up capital, is an important component of an effective entrepreneurial development system.

Create Opportunities for Youth Engagement and Entrepreneurship. The future of each community is rooted in its young people. For many communities that have experienced severe and chronic outmigration of youth, their very futures are challenged. To survive, communities need to renew themselves demographically – that means keeping or attracting the next generation of young families, young professionals, young leaders, and young entrepreneurs. The Center's youth assessment research suggests that about half of the young people in rural communities today have a strong desire to return to their hometowns in the future.[15] They leave to pursue education or other life experiences and, perceiving limited opportunities back home, choose not to return. Communities have an opportunity to engage young people during their formative years – to create meaningful connections that help draw young people back to the community. Waiting for them to leave and trying to attract them back home is a tougher task.

The connection between youth engagement and entrepreneurship lies in the importance of providing economic opportunities to young people who want to stay or come home. The Center's research suggests that the desire to come home is moderated by the need to earn a living – to have a good job and career opportunities. For many communities, particularly urban neighborhoods and rural places, not only are quality jobs in short supply, but career offerings do not necessarily match personal aspirations. Growing entrepreneurial ventures can provide an avenue for young people to create the jobs and career paths they desire. In the process, these growing entrepreneurial ventures also create employment and career opportunities for others in the community who prefer to work for someone else rather than follow the path of entrepreneurship.

There is a final reason communities should invest in youth engagement and entrepreneurship. Almost by definition, young people are forward looking, trend setting, in tune with the latest innovations, energized about opportunities, and open to new ideas. For rural communities and regions to be forward looking, progressive and entrepreneurial, the active and passionate engagement of youth and young adults is a prerequisite.

Build Community Foundations and Field of Interest Funds. The ability of communities to create *community foundations* provides a remarkable tool for development. The TOW scenario analysis described in this book shows that there is wealth in every corner of America, even in places deemed economically distressed and experiencing persistent poverty. As Janet Topolsky, the Aspen Institute's Community Strategies Group, suggests, "There are resources in rural areas: people own land and businesses; they've made a living in various ways. But without a community foundation, there have been few mechanisms for effective giving."[16] Community foundations are one vehicle for connecting the rooted wealth of entrepreneurs to the long term development vision of the community.

Fortunately for rural communities today, there are growing numbers of community foundations across the country. There are resources to help communities establish new foundations, and there are statewide foundations, like the Nebraska Community Foundation, that offer the opportunity to affiliate. While building new infrastructure of any kind is never easy, the path to building a community's institutional capacity to support community development philanthropy is open and full of guideposts along the way.[17]

Creating a culture of community philanthropy takes time, education and experience. It requires a compelling case statement or reason for giving – something that can motivate entrepreneurs and others to give their time and their money in support of community betterment. One vehicle for motivating give back in response to these compelling stories is the *field of interest fund*. As the word *interest* suggests, this is a dedicated fund that focuses on a priority area for the community. For example, Pickaway County Ohio is a multi-generational farming community that wants to ensure that farming remains an important part of the fabric of life into the future. Working with the Pickaway County Community Foundation, leaders have created a field of interest fund that will focus on grant making to support the future of agriculture in this area.[18] Such field of interest funds are just the beginning. Over time, as donors become experienced in giving to specific causes, they can be educated and encouraged to give unrestricted gifts that enable a community to have flexible funding to meet future yet unknown needs and opportunities. Establishing field of interest funds promotes good community development practice. The process requires visioning, strategy and program development, broad-based community engagement and ownership, accountability and effective use of funds. These actions build stronger communities civically as well as economically.

Final Thoughts

There may never be a better time to intentionally consider the connection between entrepreneurship, economic development and wealth creation in rural communities and regions. Local and regional economic development infrastructure is under extreme fiscal stress. The primary sources of funding for these entities – local and county units of government – continue to face declining revenues associated with the economic downturn, the slow recovery, and declining federal resources. At the same time, rural regions are on the cusp of an historic intergenerational transfer of wealth that offers the potential for great rewards if action is taken soon to plan for and capture some of that wealth before it slips away.

At the same time, the economic base of most rural communities – and the country as a whole – has undergone a fundamental reset. Rising numbers of entrepreneurs of all stripes are likely to become a dominant source of economic activity and prosperity in the future. This may be the silver lining to the dark economic news that has wormed its way into the American psyche. Support for and engagement of entrepreneurs can bring new forms of wealth into rural communities – their ideas, skills, hope for the future and financial resources. These financial resources, combined with the capacity of community foundations, can create a more sustainable source of development resources. Such funding is essential for supporting the very strategies that create a sense of hope for rural people and places. Today so many rural people and communities are *feeling poor,* that they have lost control. Cultivating entrepreneurs and the spirit of giving back can provide the financial resources needed to renew visioning, commitments to action, and real hope for a brighter tomorrow.

The good news? This strategy for development is unfolding in communities across America. It requires dedication, hard work and time, but it holds the promise for real and meaningful change.

The Case for Social Entrepreneurs

Our focus in much of this chapter has been on private or business entrepreneurs – the innovative, creative individuals among us who build enterprises that improve their own economic prospects and the livelihoods of others. But, at the foundation of the efforts to build more entrepreneurial communities and regions across rural America – whether through effective public sector economic development policies, targeted community college programs, quality youth entrepreneurship initiatives, or innovative community foundation investments – are social entrepreneurs. "Social entrepreneurs play the role of change agents in the social sector."* They are driven by a broader social mission than business entrepreneurs. In our work, we find social entrepreneurs who are committed to building more resilient rural places, who want to create an environment that draws their children and grandchildren back, who want to preserve the amenities of rural life while fully, equitably and profitably connecting rural people and their assets to the broader economy.

Cultivating social entrepreneurs and providing them with the support they need to find and implement innovative ways of using assets to better address both the opportunities and the challenges rural regions face is as important as supporting the business entrepreneurs who will create jobs and wealth for themselves and others. Rural places in particular need to be alert and open to the budding social entrepreneurs that operate outside more traditional economic development circles – in youth organizations, small non-profits, immigrant communities, senior centers, newcomers groups, and among the business entrepreneurs who are committed to rooting themselves, their families and their businesses in rural America.

**J. Gregory Dees, The Meaning of "Social Entrepreneurship", Center for the Advancement of Social Entrepreneurship, Duke University, May 2001, http://www.caseatduke.org/documents/dees_sedef.pdf.*

1 Gunnar Eliasson and Magnus Henrekson, William J. Baumol: An Entrepreneurial Economist on the Economics of Entrepreneurship, SSE/EFI Working Paper Series in Economics and Finance No. 532, August 22, 2003.

2 Peter F. Drucker, *Innovation and Entrepreneurship*, New York: Harper Perennial Library, 1985, p. 30.

3 We are not suggesting that the capitalist system is perfect. Based on its historical performance, it has limitations and can lead to inequalities, as described earlier in this book, environmental ruin, exploitation of labor, and unfair political influence. The point here is that capitalism can be a powerful force for good when it enables members of a society to improve themselves and their lot through personal wealth creation and the freedom such wealth affords, including the freedom to give back. For an historical overview of these issues, we suggest Kevin Phillips, *Wealth and Democracy: A Political History of the American Rich*, New York: Broadway Books, 2002.

4 In July 2011, 69 individuals/couples had joined this new philanthropic call to arms. To learn more, go to www.givingpledge.org.

5 Donna Kelley, Niels Bosma, and José Ernesto Amorós, Global Entrepreneurship Monitor 2010 Global Report, http://www.gemconsortium.org, p. 9.

6 John Tozzi, Revisiting the Face of 'Necessity Entrepreneurship', Bloomberg Businessweek, March 9, 2010, http://www.businessweek.com/smallbiz/content/mar2010/sb2010039_995571.htm.

7 http://www.youreconomy.org/pages/growth/growth.ye?region=growth&year1=2000&state=US&NAICS.

8 Thomas L. Friedman, The Start-Up Of You, *The New York Times*, July 13, 2011, A25.

9 Dane Stangler, *High-Growth Firms and the Future of the American Economy*, The Kauffman Foundation, March 2010, http://www.kauffman.org/uploadedfiles/high-growth-firms-study.pdf.

10 Gregg A. Lichtenstein and Thomas S. Lyons, The Entrepreneurship Development System: Transforming Business Talent and Community Economies, *Economic Development Quarterly*, 15 (February 2001), pp. 3-30. Elaine L. Edgcomb, Joyce A. Klein, and David Black, *Revitalizing Rural Economies through Entrepreneurship Development Systems*, The Aspen Institute, December 2008, http://fieldus.org/Publications/EDS2008.html.

11 Elaine L. Edgcomb, Joyce A. Klein, and David Black, pp. 3-5.

12 To learn more about entrepreneurial development systems, we recommend Erik Pages, Building Systems for Entrepreneur Support, *Economic Development America*, Winter 2005, http://www.entreworks.org/Download/EDAWinter2005Final.pdf; the Winter 2006 issue of *Economic Development America* focused on Rural Entrepreneurship and Innovative Leadership, http://www.entreworks.net/Download/SupportingRuralEntrepreneurship.pdf; CFED, *Mapping Rural Entrepreneurship*, August 2003, http://www.energizingentrepreneurs.org/site/images/research/erpr/srr/srr3.pdf.

13 The Nebraska Community Foundation website has a number of stories that demonstrate the power of entrepreneurs giving back to their communities – www.nebcommfound.org. To read other give back stories, go to http://bit.ly/usRAMP

14 To learn more about encouraging angel investing, go to www.angelcapitaleducation.org.

15 Karen Dabson, Craig Schroeder, and Deborah Markley, *Energizing Our Youth: Stimulating Rural Economies and Stemming Outmigration*, Center for Rural Entrepreneurship, January 2010, http://www.energizingentrepreneurs.org/site/images/research/cp/prwp/prwp7.pdf.

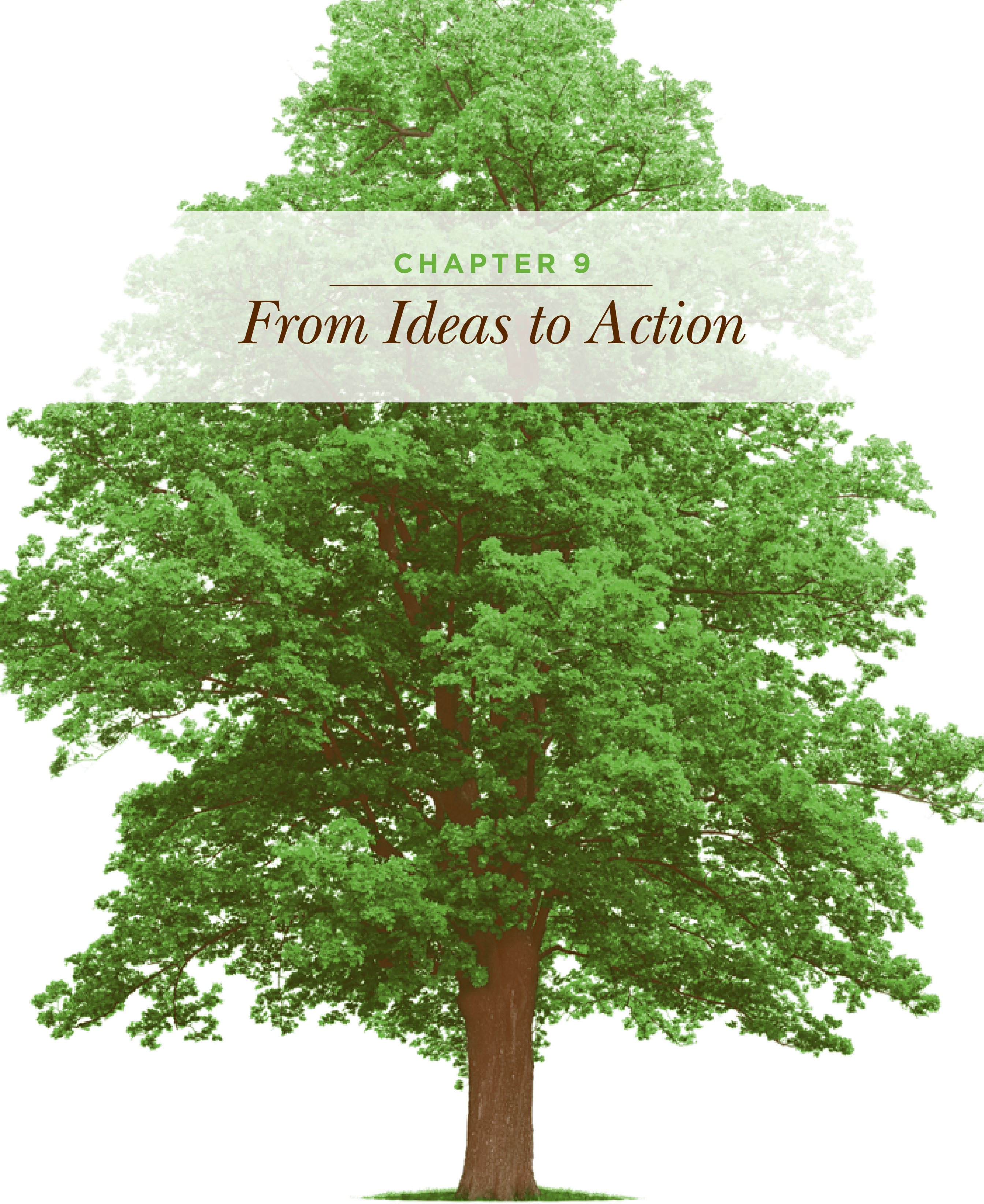
16 *Community Foundations: Growing Philanthropy Close to Home*, The Claude Worthington Benedum Foundation, 2002.

17 An excellent resource for learning more about community foundations is the Council on Foundations – http://www.cof.org/whoweserve/community/index.cfm?navItemNumber=14849.

18 Amy Lake, *The Story of the Pickaway County Community Foundation as Told by Shirley Bowser*, Center for Rural Entrepreneurship, May 2010, http://www.energizingentrepreneurs.org/site/images/research/es/seoi/seoi21.pdf.

CHAPTER 9

From Ideas to Action



We wrote this book to bring together two sets of ideas that have been part of the Center's portfolio over the last decade – our focus on understanding the transfer of wealth opportunity that exists in rural places across the country and our work to help rural communities and regions embrace, design and implement entrepreneur-focused economic development strategies, including those targeted to youth. These ideas have evolved based on our work in the field, combined with the critical thinking and practice of many partners. Over time, we have become increasingly convinced of the important role for community development philanthropy as the connective tissue between these two sets of ideas. We conclude this book not with a summary of where we have been, but rather with some specific thoughts on moving from ideas to action.

Building Individual and Family Assets in Rural America

A fundamental starting point for growing wealth in America, including rural America, is building the assets of individuals and households. The building blocks of wealth for individuals and their families are assets – financial assets they accrue over time; skills they acquire through a lifetime of education, training, job experience; the natural resources they own and control, as examples. Assets represent investments that are rooted in rural people and places – they improve the prospects for employment that is meaningful and fairly paid; they become the "nest egg" for starting or growing a business or educating a child; they serve as the basis for creating sustainable economic opportunities.

The data on wealth creation in America shared in this book suggest some important leverage points for increasing the assets and ultimately the wealth that households in rural and urban communities hold. Two leverage points seem particularly conducive to public policy intervention – education and home ownership. Increased access to forms of higher education and encouragement of home ownership provide entry points for community, regional, state and federal leaders to begin to influence the wealth creation process. At the same time, there is a critical need for leaders at all levels to get much more creative in addressing these issues.

Public higher education is under extreme stress as state and federal budgets are squeezed. The prospects for turning that funding crisis around in the short run appear slim. As a result, innovative solutions appear to be the order of the day, including efforts such as the Hartford Finance and Insurance Academy, High School, Inc., that seeks "to pipeline high-potential talent from traditionally underserved populations into the business."[1] High School, Inc. is Travelers' solution to its lack of minority agents to help tap the growing minority insurance market. This social innovation enables the company to meet the education and training needs of minority youth while also meeting an important business objective, creating shared value for all.

On the home ownership front, continued weakness in the housing market and threatened changes in tax laws that would remove incentives for home ownership may erode the historically strong link between owning a home and building wealth, particularly for low wealth families. Indeed, this disconnect can already be seen in a Pew Research Center study that found a 66% decline in inflation-adjusted net worth of Hispanic households, driven predominantly by declining housing values.[2] Again, innovative solutions are needed, such as CFED's support for I'M HOME (Innovations in Manufactured Homes). Through this work, CFED's partners are demonstrating how quality manufactured housing can be delivered to low income families and how resident ownership of manufactured housing developments can create the foundation for building home ownership assets on a par with those who purchase more traditional homes.[3]

At a time when new public sector programs and resources are unlikely, leaders at all levels will need to consider how best to engage the private and philanthropic sectors in unleashing innovative approaches to building these basic assets as the foundation for growing a broader pool of wealth across communities and regions.

Growing Wealth in Rural America

Building individual and family assets is not enough. Growing wealth in rural regions across the country will require focused efforts to turn assets in rural places into sustainable economic opportunities. That is where the skills, creativity, and innovation of entrepreneurs come into play. As described in Chapter 8, there is growing evidence and support for the role that entrepreneurs play in turning assets into opportunities. And, over the past 10 years, we have learned a great deal about building more supportive environments for entrepreneurs. Increasingly, successful entrepreneur-focused economic development must recognize the importance of taking a regional approach and not fall into the trap of thinking in terms of rural vs. urban. Sustainable economic development in rural places requires that we ask how rural assets can meet emergent demand in urban places in ways that build wealth throughout the region – by providing alternative energy; by contributing to regional food systems; by offering recreational, tourism, and environmental stewardship opportunities.

One promising tool for connecting assets in rural places to external demand is through the identification and construction of value chains. "A *value chain* is a business model based on shared economic, social, and environmental values, in which producers, processors, buyers, and others work together to create value. Because value chains are built in response to market demand, they can be more responsive and innovative than traditional supply chains."[4] Value chain development requires relationship building. In many rural places, organizations involved in economic development, workforce development, and asset building operate in isolation. Most often, these organizations are not working together as collaborative partners in the development of value chains but are instead focused on their own small piece of the puzzle – running an Individual Development Accounts (IDA) program; operating a business incubator; training new workers at a community college. What might it look like if they were working collaboratively on a particular value chain?

- **Asset building organizations would steer their IDA clients to pursue job training related to a specific value chain, e.g., energy retrofitting to support a green affordable housing value chain**
- **Entrepreneurship support organizations would help clients (including IDA clients of their asset building partners) start businesses that would participate in the value chain, e.g., a refrigerated trucking company to transport locally sourced and/or organic produce into urban markets**

By focusing on entrepreneurs within the context of specific value chains, rural regions have an opportunity to use their assets to pursue opportunities that are in demand in more urbanized parts of their regions, across the country and the globe. This focus on demand, and on supporting the entrepreneurs who are actively pursuing business opportunities that connect with and benefit from the value chain, has great potential to build businesses that create wealth for their owners, for their employees, for their investors and for their communities. Entrepreneurship development practitioners would benefit from expanding their toolkits to include tools associated with value chain exploration and development. At the same time, federal policy makers could better support these new approaches to rural development by focusing resources and investments on regional efforts to connect rural and urban through value chain development.

Capturing and Reinvesting Wealth in Rural America

Growing wealth in rural America is not enough. Without investing in the capacity of community institutions to capture some portion of the wealth that individuals and families build over time, rural America will always be fighting the trend lines – loss of population, young people, the school, the hospital, the library, resources, environmental quality. Rural leaders must be intentional about capturing and reinvesting community wealth in ways that lead to new rounds of wealth creation – that build the stock of assets that rural places can use as the foundation for the next wave of economic opportunities. The past 5-10 years have seen significant growth in the number of community foundations operating across the country, but there are many rural places that are not served by community foundations, or are served by those with limited capacity. While there are other models for expanded local ownership of wealth – cooperatives and worker-owned companies are two of the more prevalent – community foundations provide mechanisms for building endowments and for making investments targeted to economic and community development.

Capturing wealth in rural America requires attention on two fronts. One front must focus on building and expanding the capacity of community foundations to serve rural America. Affiliate funds, such as those supported by the Nebraska Community Foundation and the Arizona Community Foundation, are one route to giving local leaders control over development resources without having to build core organizational capacity in every community. These models combine the scale economies of a statewide model with localized decision making. In the absence of statewide community foundations, other philanthropic resources may play a similar facilitative role.

The second front must focus on spreading community development philanthropy practice more widely across rural community foundations. There is an urgent need to move foundations from endowment building to community building. Community foundations have a unique role to play in bringing people across the community together to define a vision for the future and establish the investment pathways for turning that vision to reality. Fortunately, as the practice of community development philanthropy grows, there are more lessons to be shared and more models to be adapted.

The transfer of wealth scenario models shared in this book represent *potential* – wealth that is likely to pass from one generation to the next over the next 20 and 50 years. Without effective institutional structures to capture some of this wealth and the wisdom to employ those resources in support of sustainable development for the future, this moment in time may pass rural regions by. The need for community development philanthropy is great. It provides a mechanism for connecting the wealth of individuals back to their communities through endowment building activities. It contributes to the creation of new wealth by building investment strategies directed through field of interest funds and through value chain development. And, it helps to establish an ethic of giving back so that as the wealth of individuals, families, and entrepreneurs grows, the commitment to building locally owned and controlled development resources is reinforced over and over again.

Imagining the Future

Visioning can be a powerful community development tool. For many rural residents, it is hard to see a future that is not defined by deficits – lack of connectivity to markets, outmigration of youth, loss of an anchor factory, mill or mine. Creating a vision of the community or region that you wish to become is the first step toward taking a more appreciative and activist approach to imagining the future. And, the process of imagining, or visioning, gives everyone in the community an opportunity to put their hopes and wishes on the table and to focus on the assets that can be harnessed to turn that vision into reality. As George Bernard Shaw said, "Imagination is the beginning of creation. You imagine what you desire, you will what you imagine and at last you create what you will."

In our work, we have found that getting to that vision can be aided by quality facilitation and by instructive scenarios. "Rather than prediction, the goal of scenarios is to support informed and rational action by providing insight into the scope of the possible."[5] That insight is a desired outcome of our TOW scenario analysis, our entrepreneurship strategy development, and our youth engagement work. We conclude this book by imagining the future where the transfer of wealth potential, support for entrepreneurs and the power of community development philanthropy combine to create sustainable, resilient rural communities that are valued and equal participants in thriving regional economies.

Driving through the region, you are struck by the natural beauty. Well kept farms, sustainably managed forests, and clean waterscapes lie on the outskirts of smaller communities with thriving Main Streets. Most stores boast stickers advertising "Buy Local" campaigns. In a restored general store on one end of Main Street, local artisans are practicing their craft and building their businesses, supported by a regional e-commerce site that connects them to demand for their products in the urban centers of the region, and across the country. A sign further down the street announces the restoration of another older building as a space for emerging tech-based businesses. Access to broadband has created linkages to markets unimagined before.

Further down the main artery in the region is the Green Business Park, an innovative twist on a traditional industrial park. All of the businesses in the park are part of an alternative energy value chain that has been developed in the region. There are businesses producing solar panels for the community owned solar farms that dot the region. Others are doing energy audits and contracting to complete energy efficiency upgrades on existing buildings across the region. The community college has opened a branch at the park specifically to provide training for solar installation, energy audits and other skills required in this sector. To encourage more local residents to pursue this training, a local non-profit has created a Green Individual Development Account (IDA). This IDA can be used to pay for the green business training programs offered by the community college, and the community foundation provided a grant to cover the matching portion of the program. You are struck by the diversity of students streaming through the classroom doors – old and young; men and women; black, white, Hispanic.

Traveling away from the Green Business Park, you pass the cooperatively owned regional produce packing plant, financed with a grant from the regional community foundation and a long-term, low interest loan from a major grocery chain. Trucks are lined up at the loading docks, ready to transport produce from farms throughout the region to the regional hospital, grocery stores and the Wal-Mart in the urban centers that lie to the northeast and southwest of the region. After grading, some of *the produce is trucked to the regional food processing plant where it is sold under a regional brand label.*

Arriving in one of the larger towns in the region, you head to the high school where the final presentations in the regional business plan competition will be judged. Encouraged by their teachers and local entrepreneurs who have mentored them, the students have done their homework. Local entrepreneurs, serving as judges, offer constructive critique and encouragement. One student walks away with a cash prize – raised through local donations – and vows to start her business in the region. The others get the message that their community is behind them and encouraging of their dreams. Several stay behind and talk with the judges about their business ideas.

Picking up the local paper, you see announcements about the latest gifts made by long time community residents to the local foundation. Most are targeted to field of interest funds that support economic development – one focused on youth entrepreneurship activities, another supporting a local business coaching position in the economic development corporation, and another targeted to providing additional resources to the regional library's economic gardening resource center. One quote from a donor attracts your attention – "I built my business and my family in this community. The community has supported me and given me many opportunities to give back. We have a true give back ethic in this region and I am honored to be able to support our region's vision for the future. I am proud to announce that I am designating 5% of my estate to our community foundation's entrepreneurship development efforts. I challenge everyone with roots in this region to do the same."

Whether this exercise in imagining the future is an interesting fantasy or the first step toward realizing a new direction for rural regions remains to be seen. What our work over the past 10 years has shown us is that more and more community leaders across rural America are seizing the day – they are no longer content to wait on others to show them the way or to map out the future. Instead, they are marshaling their own assets, looking to support and grow their own entrepreneurs, and building the capacity to create, capture and reinvest wealth in ways that put them well down the road toward achieving their vision. Their stories give us hope for the future and renew our commitment to be a partner in their efforts for the next 10 years, and beyond.

1 Jason Saul, p. 120.

2 Rakesh Kochhar, Richard Fry and Paul Taylor, Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics, The Pew Research Center, July 26, 2011, http://pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics.

3 To learn more about I'M HOME, go to http://cfed.org/programs/manufactured_housing_initiative/im_home.

4 To learn more about the specific value chain development that is being supported by the Ford Foundation, go to www.creatingruralwealth.org.

5 Paul Raskin, et al., *Great Transition: Promise and Lure of the Times Ahead*, A Report of the Global Scenario Group, The Stockholm Environmental Institute, 2002, p. 14.

About the Authors

Don Macke is a co-founder of the RUPRI Center for Rural Entrepreneurship. He pioneered the first state and county level transfer of wealth study for the Nebraska Community Foundation in 2001 and 2002. Since then Don has been part of the TOW Research Team evolving a robust and ever expanding collection of TOW and community development philanthropy related work. Don has over 35 years of community economic development experience working throughout North America.

Dr. Deborah Markley is a co-founder of the RUPRI Center for Rural Entrepreneurship where she serves as the Managing Director and research team leader. Deb has served as the editor for this book and contributed to the writing of numerous chapters. Deb has extensive experience in rural community economic development leading a team that has conducted extensive documentation and evaluation work focusing on successful development strategies.

Ahmet Binerer joined the RUPRI Center for Rural Entrepreneurship shortly after graduating from the University of Nebraska with a degree in information management. Ahmet is a core member of the TOW Research Team. He leads research and scenario modeling efforts. Ahmet's talents have greatly enhanced the Center's ability to expand the quality and breadth of our TOW and community development philanthropy work. Ahmet is currently working on a Masters degree in economics and is a new first time father.

Questions & Additional Information

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Thoughts from our Partners

The Nebraska Community Foundation uses an asset-based approach in its community building work. We're interested in helping local leaders transform their communities. To change and evolve, community leaders must first believe. NCF uses the transfer of wealth opportunity to help community leaders better understand the indigenous assets that exist in their community and to motivate them to reach out and ask their friends and neighbors to invest in the future of their hometown. Then, once the philanthropic assets are endowed, NCF works with community leaders to make impact grants that generate greater opportunities for everyone to live and work in their hometown. This book shares lessons learned from the genesis of rural Transfer of Wealth in Nebraska to ongoing initiatives in other regions as motivation for leaders in rural communities to embrace community development philanthropy.

Jeff Yost
President and CEO
Nebraska Community Foundation

After members of our local community foundation Board and other community leaders visited the Nebraska Community Foundation in September 2006, we came back to Pickaway County Ohio with new enthusiasm. While in Nebraska, we learned about HomeTown Competitiveness (HTC) and the Transfer of Wealth (TOW). Through a process of visioning and community focus, we developed a community agenda targeting philanthropy in support of education, leadership and agriculture. As part of an ongoing process, we continue to learn about, develop, and adapt the TOW resources to the unique perspectives of our community.

Shirley Dunlap Bowser
Founding member
Pickaway County Community Foundation (Ohio)

In rural America, there are many who believe population loss and economic decline are foregone conclusions. While a global answer may be difficult to find, there are opportunities to reverse these trends at the local level. The Transfer of Wealth analysis provides an opportunity to pinpoint the areas where assets are leaving communities most rapidly, and to communicate a strategy to capture some of those assets before they are gone. Ultimately, these assets are used to address the issues that brought a particular rural place to the brink in the first place. This tool is the starting point for re-investment into rural areas.

Bob Sutton
President
South Dakota Community Foundation

The extraordinary changes facing this nation leave an uncertain picture of our future. Don Macke and his colleagues at the RUPRI Center for Rural Entrepreneurship have given states and local communities insights into one powerful way to prepare for whatever lies ahead. They demonstrate that, collectively, we have tremendous wealth and that if we all set aside even a small amount of that wealth in community endowments, we can assure that our communities prosper and are positioned to take advantage of the opportunities that change will offer.

Mike Hammons
Executive Director
Kentucky Philanthropy Initiative

Transfer of Wealth in Rural America demystifies the community foundation's role in Community Development Philanthropy. This book is a must for community foundations engaged in rural economic development that are looking for a guide to tie wealth transfer, regional leadership, civic democracy and social justice to their missions and visions.

Donnell Snite Mersereau
Vice President, Community Foundations
Council on Michigan Foundations

Center for Rural Entrepreneurship
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TOW Transfer Of Wealth

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