

**The Determinants of Economic Performance in Rural Areas**

**Sheela Agarwal**

**DEFRA**

**2009**

Contact: [sagarwal@plymouth.ac.uk](mailto:sagarwal@plymouth.ac.uk)

**The Service and Enterprise Research Centre (SERC) carries out world leading research in the fields of services and enterprise, and their applications across a range of public, private, voluntary and community sectors. The aim of SERC is to provide research, consultancy and advice regarding a wide range of service operations, marketing, enterprise, innovation, and impact issues affecting small, medium and large businesses, organisations and agencies.**

## The Determinants of Economic Performance in Rural Areas (funded by Defra)

There has been growing interest amongst policy-makers and researchers in the distinction between 'leading' and 'lagging' rural areas. Various studies undertaken in the UK, Europe and Canada, for example, the Dynamics of Rural Areas (DORAs) (Bryden and Hart, 2001), Rural Employment (RUREMPLO) (Terluin and Post, 2000) and the 'New Rural Economy' (Reimer, 2003), have sought to distinguish 'leading' and 'lagging' areas and to compare their characteristics. However, despite these studies, there was still a dearth of knowledge of the underlying factors that explained the uneven geography of economic performance across rural England, and of the most appropriate mechanisms and policies to foster improvements. This was surprising in light of Defra's (Department of Environment, Food and Rural Affairs, UK) Public Service Agreement (PSA 4) commitment spanning 2001-2004 and 2005-2008 to 'reduce the gap in productivity between the least performing quartile of rural areas and the English median by 2006....'.

Building on this short-coming, this study examined the determinants of economic performance of 149 English rural Local Authority Districts (LADs). A Three Stage Least Square (3SLS) estimation procedure was employed to jointly determine the influence of a wide range of indicators representing economic, human, cultural and environmental capital, as well as less tangible or 'soft' factors on three distinct components of economic performance: productivity, employment and labour market participation. The results revealed that a range of facets of economic and human capital, including the three key drivers of productivity (skills, investment and enterprise), spatial factors (peripherality and accessibility), and other key factors (economic structure, government infrastructure, road infrastructure, and occupational health), were significant determinants of economic performance in rural areas.

The study findings reinforced a raft of previous studies which examined aspects of rural economic performance (e.g. Bryden et al., 2004; Terluin and Post, 2000), and in doing so, highlighted the value of the proposed model and methodology. Indeed, in recognizing the endogeneity of the three dependent variables leading to the specification of a structural model using a simultaneous equation framework, this approach marked a major improvement upon previous studies of rural economic performance which implemented less rigorous empirical evaluation. Moreover, such an approach was intended to be transferable to that it may be adjusted and applied relatively easily to measure economic performance in other geographical contexts. However, given the over-arching aim of the UK Government's rural policy to create sustainable communities, perhaps this study's true value are the many ways that are highlighted in which rural policy may improve rural economic performance.