Rural Development

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Background

Over the last thirty years, rural America has been on an economic and social roller coaster. Prior to the 1970s, the status and role of rural America within the larger economy was clearer than it has been at anytime since. In general, urban America produced products in the early stages of the product cycle, while rural America generated raw materials, food, and energy, and provided low cost labor for the production of products in the mature stage of the product cycle.

As the traditional rural industries became more capital intensive, rural employment bases shrunk and populations declined. However, at least rural communities could count on the linkages between their agricultural, mining, and manufacturing sectors and their financial, trade, and service sectors. Rural policy in this environment involved the attraction and retention of a few key economic base sectors including agricultural, mining, forestry and manufacturing.

As we consider the first farm bill of the Twenty-first Century, population growth has returned to some rural communities. Yet, despite the fact that growth is occurring in some rural communities in every region, more than one-quarter of all rural communities continue to decline, and three-quarters of all recent non-metro growth has occurred in just one-third of non-metro counties. Almost all the declining counties are in the plains region from North Dakota to Texas.

While the USDA is the Congressionally-mandated lead department for our nation's rural development policy, numerous agencies in most federal departments, (Transportation; the Education, Health and Human Services; Housing and Urban Development; and Commerce) contribute significantly to federal rural development efforts. Social Security, Medicare, and Medicaid are huge sources of income in many rural communities.

Nation-wide, farm income represents less than two percent of total income. Most studies of the contribution of farming to state economies find that agriculture contributes less than 20 percent to the state Gross Domestic Product, even including farm input suppliers, agricultural value-added processing, food and fiber distribution, and the multiplier effects of income earned in all of these activities are included. Much of this agricultural contribution actually occurs in urban, not rural, communities.

Even the most farm-dependent communities depend on agriculture for only a fraction of their income. With the multiplier effects of farm income included, farming's contribution to all but a few communities is likely to be considerably less than 50 percent.

On the other hand, according to the last Census of Agriculture, the average census farm family had net earnings of just under $6,000 from all farming activities while earning over $46,000 from off-farm sources, for a total of over $52,000. Of each dollar of farm family income, 12 cents comes from net farm income, 48 cents comes from off-farm employment, and 40 cents comes from interest, dividends, rent, and transfer payments. Farms and farm families also depend on their communities to provide them with public and private services, infrastructure, marketing opportunities, good education, etc.

One could argue, then, that in most rural communities, farms are more dependent on their communities than communities are dependent on farms. Because of the physical tie of farm families to the location of their farms, farm families are particularly sensitive to the location of these jobs — they cannot relocate to improve their access to employment opportunities.

Current Situation and Forces of Change

Several forces, including changing technology, globalization, and localization, are leading to significant changes in rural life.

Technological change

From the rural community's perspective, technological change affects more than just employment patterns. In production, the most significant economic forces are the rising importance of information, communication, robotics, artificial intelligence, genetic engineering, and other embodiments of technology. In addition to the direct effects of these changes on employment, they also have led to increased use of services (particularly information related services), and to the reduced use of raw materials in the production processes of other manufacturers.

Due to technological change, the productivity of labor has risen dramatically — reducing the relative cost of labor. As the costs of raw materials and labor become less important, location and investment decisions will be based more on other factors such as access to appropriate information infrastructure, life-long educational opportunities, and other accoutrements that provide firms a competitive advantage in securing skilled employees. This process, then, can have positive effects on income, job security, etc., even while it reduces employment.

Globalization and localization

Increased trade and global competition among firms is usually the assumed consequence of globalization. However, the movement of information, technology, capital, and people is of greater significance to rural communities.

The term "localization" refers to the growing role of local conditions and local choices in the prosperity of communities. The reasons for the growing primacy of local circumstances include technological change, changing social and political attitudes, and the globalization that has opened competition with the world.

All industries now have greater freedom to behave like footloose industries. The growing role of information exchanges, communication technology, and computers allows many services and otherwise market-oriented industries to locate further from their markets. Satellite and fiber optics technologies allow instantaneous audio, video, and information transmissions over long distances. This allows financial, insurance, real estate, educational, business management, accounting, legal, and many other services to centralize some functions and decentralize others but, in general, they are freed from locating strictly according to the location of their clients. Indeed, many of these services can be, and are being, provided in international markets just as goods have always been. Retailing will become increasingly footloose as consumer acceptance of mail order and computer shopping rises.

These forces have left many communities unsure of their best strategies. Public investment in human capital often increases the mobility of a community's labor force. In declining communities, this undoubtedly reduces the incentive to make public investments in people. Industrial attraction programs are very risky and, when successful, attract employers that can as easily be lured away again by another community with an even more attractive incentive offer.

Industrial Structure

The emergence of industrialized agriculture, farmer alliances, new generation coops, and other elements of supply chains is precipitated by changes in technology, growing globalization, and the existence of economies of size. The supply chain revolution in agriculture is having a wrenching effect on rural communities as well. The spatial concentration of agricultural products and firms is growing. This affects the stability of these communities and increases their dependency on particular firms.

Most non-farm residents have an interest in the health of the agricultural sector — rural communities benefit when their local agriculture sectors prosper. However, structural changes in agriculture seem to be eroding some of these common interests. Increased industrialization of agriculture is weakening the ties between farms and their communities. Research has found that concerns with industrial agriculture and meatpacking plants are greater among rural residents who live in smaller towns, or who live closer to these farms and plants. Furthermore, in many states and communities, agriculture has effectively limited its exposure to local property taxes — further reducing the interest that non-farm residents have in the sector.

Devolution and New Governance

All levels of government are transforming in the face of changing technology, economics, and global realities. "Market oriented," "entrepreneurial," "competitive," and "results-oriented" are some of the descriptors of effective government used in the widely quoted recent book, *Reinventing Government*. Reinvented governments are balancing their budgets and overhauling their system of local finances. They are financing themselves with user fees and other market mechanisms. They are privatizing, outsourcing, and forming strategic alliances with other governments and with the private sector. They are becoming performance-based.

This trend places even more importance on the capacity of rural communities to manage information, and to develop strategies that effectively exploit this information to achieve measurable improvements in the delivery of public services.

For many rural communities, this is a tall order — given their small or non-existent staffs and resources, and their limited experience with many of these new areas of responsibility.

Policy Issues

Non-farm Employment and Income

For most farm families, a reasonable level of income and employment benefits depends on the availability of good off-farm employment and small business opportunities. Yet, given small local markets and the limited size and diversity of the rural labor forces, the scale of many rural firms is limited. In a world where scale is becoming more and more important, this puts rural areas at a distinct disadvantage. However, with a global marketing strategy and intensive use of skilled labor and information technology, the necessary scale may still be possible in certain rural sectors.

Under-investment in Human Capital

The most depressed rural areas are also those with the lowest levels of educational attainment. A poorly educated workforce and a poor public education system retards employment growth, and low rates of employment growth discourage individuals from investing in education. Those that do invest are more likely to migrate to other rural, urban or suburban regions. Similar patterns are evident in other types of human capital — skills development, nutrition, and health.

Infrastructure

The critical public policy trends discussed above highlight the importance of infrastructure. Rural economic development requires investment in the traditional forms of infrastructure (roads, airports, housing, water and sewer, hospitals, and schools) — and in the new infrastructures (cable, DSL (internet), fiber optics, and wireless systems). Skilled labor will also demand amenities such as parks, recreational facilities, and public safety. The challenge is to provide this infrastructure over large areas and small populations.

Fiscal Crisis in Local Governments

Despite recent weakness in the economy, revenue prospects are relatively strong for federal and state governments, while local governments have experienced weaker receipts for several years. In general, this is a consequence of tax limitation legislation, non-taxable e-commerce retail sales, changing spatial patterns of retail sales, and slow growth in real property values. Another compounding factor is the continuing evolution in inter-jurisdictional responsibilities that have increased the demand for local expenditures.

Land-use Conflict

Both growing and declining rural communities can experience land-use conflict. On the urban fringe, the conflict is between farmers and urbanites, developers, and environmentalists. Farmers want to farm their land as they wish, in a profitable fashion, pay as little property taxes and special assessments as possible, and be able to sell their property at the highest possible value if they choose to stop farming. Urbanites want to buy property and live where they wish, and to enjoy their homes free of odors, noise, and inconvenience. They want their neighbors to keep their property in a pleasant fashion. Developers want to purchase attractive tracts of land, develop it inexpensively, and market it at the highest possible value. Environmentalists want to keep productive land in farming, and to reduce traffic, water degradation, and air pollution.

In rural areas, land-use conflict often occurs between farms and non-farm residents, and between small farms and larger farms. Some farmers want to expand their farms and invest in the most profitable technologies, and to exploit economies of scale while others want to maintain and support smaller farms. Most non-farm residents would like agriculture to remain as it is, or as it was in the past.

Policy Options

An Interagency Rural Secretariat

In the past various federal rural development policy options and institutional alternatives have been suggested, and even tested. These range from a stand-alone Department of Rural Development to an interagency rural development working group. Canada has instituted a Rural Secretariat, which is not a department but which has a cabinet position in the Parliament. They have also introduced the policy construct of a "Rural Lens" that requires all agencies to conduct what is essentially rural impact statements. This goes further, however, by challenging each agency to achieve certain objectives in rural areas. This mirrors existing EU policy that has a similar set of rural objectives.

A U.S. rural secretariat could reduce wasteful duplication and gaps between the multiple agencies that affect rural areas. Such a secretariat should be mandated to report regularly on the state of rural America.

These recommendations are consistent with those forwarded to President Bush by the bipartisan Congressional Rural Caucus, and endorsed by over 30 of our Nation's most important rural advocating organizations.

Expansion of Value-Added Activities

A policy to expand value-added manufacturing and services has several advantages over others. First, it increases the demand for agricultural products in the region — potentially increasing prices and assuring demand. Second, it often reduces overall transportation costs or, at least, it reduces transportation costs as a percent of product value. Third, it creates employment opportunities. Fourth, it expands the local tax base — allowing improvements in local services. At the same time, we observe in communities with new meat packing plants that value-added manufacturing can lead to troublesome environmental issues, land-use conflict, reduced diversity in agricultural production, and other negative side-effects not always valued by farm and rural residents.

Human Capital Investment

Whether the goal of policy is to support places or people, human capital investments have a high pay off, and they must be directed at the places where people live. The emerging information economy demands that regions and communities must compete globally. A well-educated, healthy, and adaptive (learning) work force is the foundation of a prosperous community. Human capital investments include early childhood nutrition and development; day care; elementary and secondary education; post-secondary education; skills development and training; and physical and mental health care.

Rural Entrepreneurship and Venture Capital

The difference in employment growth rates between successful and failing rural communities can be traced to several factors, but lack of small business growth is a very important dimension. Emergent small businesses are more often birthed and successful where there are entrepreneurs, and where they have the necessary financing. Therefore, an expanded range of financial options for rural businesses, including equity and venture capital, is an important condition for rural economic growth. In addition, a tradition of rural entrepreneurship has to be rekindled through training and mentoring. Micro-financing programs, revolving venture capital funds, technical assistance programs, and small business incubators have all proven helpful to rural entrepreneurs, and these programs should be expanded.

Rural Telecommunication Infrastructure

Rural areas may eventually get the quality of broadband services now available in most metropolitan areas. However, they will always be one generation behind — making them much less attractive to employers, employees, retirees, and recreationists. Without public policy intervention to aggregate demand and build this infrastructure, rural areas will fall further and further behind urban areas.

Revenue Enhancement of Local Governments

Policies are needed to sort out the issue of collecting taxes on e-commerce retail sales. Furthermore, the taxing authority of rural local government should be reviewed and adjusted to reflect the new reality of devolved government.

Summary

Simple calculations suggest that the best rural development policy is not larger subsidies to agriculture. However, the best farm policy may well be greater support for rural communities. In fact, farmers are perhaps the greatest beneficiaries of successful rural community development.