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# Issue Brief

## Challenges for Rural America in the Twenty-First Century



## Competition, Cooperation, and Local Government

Inspired by the best-selling *Reinventing Government*, governments at all levels have decentralized programs and services and introduced market-based competition into operations. The goal of decentralization and privatization is to enhance civic participation and harness the market efficiencies that competition can offer.

Decentralization and competition have certainly led to efficiencies and innovation. However, as Mildred Warner argues in her chapter in *Challenges for Rural America in the Twenty-First Century*, many rural communities with limited resources have been overwhelmed by this new focus on market competition and decentralization.<sup>1</sup>

These two forces have reduced small local governments' ability to produce and deliver services, administer municipal functions, and plan and execute strategies for further development. The pressures risk exacerbating inequality between rural and urban areas as rural governments with limited means fall even farther behind wealthier communities that can compete more successfully for development, tax base, and contracts with private-sector service providers.

### The Opportunities and Challenges of Decentralization

For all of the advantages that decentralization can provide in the way of local control, it has taken a toll on the finances of local governments. Responsibility for programs has been pushed to the local level without giving those governments additional revenue-raising authority. Local governments, in turn, are encouraged to invest in activities that promote economic development and build their tax base.

The pressure to decentralize and introduce market competition in service delivery risks exacerbating inequality between rural and urban areas.

Yet, those that lack the fiscal capacity to do so are caught in a vicious cycle. Poor economic development limits their ability to raise revenue, which in turn limits their investment in their communities, which ultimately reduces future economic development. A USDA study of government finance in 1990 showed that the poorest rural communities often have the poorest governments.<sup>2</sup> Thus, with declining access to a

1 David L. Brown and Louis E. Swanson, editors, *Challenges for Rural America in the Twenty-First Century* (University Park, PA: Pennsylvania State University Press, 2003). This brief draws mainly on chapter 19, "Competition, Cooperation, and Local Governance," by Mildred Warner (Cornell Univ.).

2 Richard Reeder and Anicca Jansen, "Rural Government—Poor Counties, 1962-1987," Rural Development Research Report 88 (Washington, DC: U.S. Department of Agriculture, Economic Research Service, February 1, 1995).

redistributive state, even more rural governments may be left behind.

Many rural areas already suffer from underdevelopment stemming in part from uneven markets. Further, although privatization has an appeal to rural governments with limited resources or technical or managerial capacity, private providers of public services may not offer viable alternatives to many of the poorest rural communities where profit potential is low. Studies show that privatization flourishes more often in wealthier, medium-sized suburbs. Thus, relying on markets may result in even greater inequality in service levels.

### **Citizen Participation**

In addition to administrative and fiscal capacity, decentralization and privatization require effective citizen participation. Yet, capacity for local action in rural communities is similarly uneven. Civil society varies according to the social capital of the rural community, from the highly engaged town meetings of New England to the less equitable patron-client relations typical of certain communities in Appalachia and the South. Communities with more egalitarian structures are better able to create networks of governance that support cooperative competition and promote development, while those with hierarchical structures will continue to see patronage-style politics limit development prospects. With increased emphasis on civic engagement in government programs, communities lacking more egalitarian social relations may fall even further behind.

Cooperative ventures within and across communities may be better suited to rural areas, with government acting as an enabler, facilitator, and networker in addition to its role as provider and enforcer.

### **Cooperative Approach Can Help Bridge the Gap**

Fortunately, as Warner reveals, another path is emerging, one centered on cooperation among governments, the private sector, and communities. In contrast to strictly market-based competition, rural governments typically seek out cooperative arrangements to meet local needs. Rural governments may, for example, form alliances with other local or regional governments to achieve economies of scale or deliver a wider range of services. For services that are capital intensive, such as public works, equipment sharing among municipalities can save money. Economies of scale are also present in many back-office services, such as dispatching and payroll. Intermunicipal cooperation also maintains a strong community orientation in service delivery.

Through collaboration, communities can build new partnerships among government, business, religious, and nonprofit interests to improve the quality of life. Cooperative ventures within and across communities may be better suited to rural areas, with government acting as an enabler, facilitator, and networker in addition to its role as provider and enforcer. (See also Brief no. 6.)



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Although cooperative networks offer considerable promise for local governments, maintaining them poses distinct challenges. Communities with greater needs and higher costs may risk being excluded from cooperative agreements, or concessions may be granted to important partners to keep them in the coalition, while weaker partners may lose voice.

Similarly, competition for state or federal programs and funds, if left unchecked, can leave smaller communities at a loss. State governments, for example, may offer tax breaks at the expense of local government services, either through unfunded mandates or reductions in state aid. Re-centralizing fiscal responsibility to the state level has been shown to have more impact in reducing local fiscal stress than state aid. Decentralizing management of service delivery does not require decentralizing fiscal responsibility.

### Policy Implications

Balancing the tension between cooperation and competition such that the needs of rural communities are addressed will require ensuring that diverse interests are represented in cooperative networks. Learning how best to manage such networks will pose a major challenge for rural communities in the twenty-first century.

To better leverage the strengths of privatization and devolution, local governments must:

- Pay greater attention to citizen voice;
- Cooperate to ensure that redistributive goals are maintained, ensuring that rural areas are not left behind in the competitive environment;
- Ensure that market efficiencies are present, especially in higher-cost rural markets; and
- Ensure broad citizen representation in the service delivery process.

Past definitions of government accountability rested on the necessary separation of government, civil society, and the private sector. Now, however, these lines are blurred. Cooperation across networks is critical to success, yet accountability, representation, and equity must still be addressed or cooperation, like competition, may create its own forms of uneven development. A great challenge to rural local governments in the twenty-first century is to ensure participation, representation, accountability, and equity under systems of both cooperation and competition.

