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Focusing on Differences: A New Approach for Rural Policy?

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Evidence continues to mount that rural America needs a new policy approach. Many rural areas continue to fall behind urban areas even after a period of unprecedented growth in the national economy. Thus, more and more analysts are concluding that current policy—one that focuses on building sectors and not communities—limits the ability to build effective partnerships among communities and businesses. Such an approach continues to result in unfulfilled promises.

Academics, policymakers, rural analysts, and rural citizens are thinking about new policies to improve the fortunes of rural America. To my way of thinking, a new framework for U.S. rural policy is emerging from a synthesis of the many options discussed at the Center's recent rural policy conference.

* This article is based on Mr. Johnson's concluding remarks at the Center's 2001 conference, *Exploring Policy Options for a New Rural America*. The article was edited by Jason R. Henderson, an economist at the Center.

In this framework, two major shifts in policy are required. First, policy should focus on place rather than on sectors. This would provide opportunities for economic development in communities that differentiate themselves. Second, policy should focus on partnerships, not on individual firms. Local communities must engage in strategic behavior partnerships to capture the value associated with place-based policies.

Why Has Policy Failed?

To fully appreciate the new framework, it is essential to understand why current policy has failed to live up to its promises. Rural areas continue to trail urban areas, even after huge government transfers. Rural employment growth is slower than in metro areas. Personal and business service provision is more difficult. Rural youth continue to migrate from rural areas, taking with them possibilities for future growth. Current policy has failed to address these problems by emphasizing individual firms instead of collective action and by focusing on sectors instead of places.

Rural policy has always sought to provide equal opportunities for individuals. Equal opportunity is the hallmark of the Jeffersonian tradition, where not only are all men, but all *places*, are created equal. And even if places were not created equal, policy systems were designed to make them so. Over time, such an approach has resulted in communities that essentially look alike, thus offering the same opportunities for all individuals. Sameness has been the measure of success for policy in rural America. But, this goal has led to duplicated public investments amid persistent market failures in sparsely populated areas.

At the same time, rural policy has focused on the prosperity of individual sectors, not on community prosperity. Rural policy has been preoccupied with agriculture and manufacturing, the traditional cornerstones of rural communities. But today's Main Streets are more diverse. Challenges face the local grocery store, the local gas station, the local doctor, and the local café, among others.

For these reasons, industry policies designed to solve past problems may not suit today's realities. Agricultural policy, for example, was conceived to help farmers in the 1930s. While policymakers have tried to keep farm policy current, these policies have done little to enhance the competitiveness of the places in which farmers reside.

Relocation tax-incentive programs are another example of policies that have not been able to encourage rural economic development in their targeted areas. Yet, these policies remain, largely because long-standing interest groups maintain enough

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political will to perpetuate subsidies that have been largely ineffective in improving the opportunities for economic growth and development in rural America.

A New Emphasis on Place Competitiveness

More and more policy experts agree that rural policy in the 21st century must center on enhancing the competitiveness of places. In short, rural America needs a policy focused on geography, supporting economic development in defined geographic areas. Place policy supports a community's ability to compete in the new economy by highlighting and accentuating community attributes that are attractive to households and firms. The attributes are sources of strength from which a community provides economic opportunity and value. Put another way, these strengths define a place's competitive advantage.

Economic theory tells us that value is derived from uniqueness. Consequently, a community's value, and in turn its strength, emerges when it recognizes its differences with, not its similarities to, other communi-

ties. Fortunately, no community is just like another. Communities possess different landscapes, infrastructures, histories, and people. These unique features provide the basic opportunities for economic development in all rural areas—and the opportunities are not the same in every rural community. Thus, to develop rural opportunities, a place-based approach encourages partnerships of communities and businesses so that rural America can become greater than the sum of its parts.

By focusing on building community value, place competitive policy counteracts the industry policies that have been ineffective in supporting economic growth. Place competitive policy calls on rural residents to question policies that subsidize individual industries at the expense of the whole community. Current policies are not necessarily inconsistent with place policy. But policies for rural America should support, nourish, and sustain the competitive uniqueness that generates opportunity and value for the community in addition to the industry.

Differentiation

Some communities are endowed with physical assets, such as mountains, oceans, rivers, and attractive climates. These attributes are a source of differentiation. Other unique features can be created—some more easily than others. Airports, interstates, and railroads are features that support economic development, but attributes such as these take time to develop. Other attributes can be developed more quickly. Programs that build a community's leadership capabilities support economic development. Initiatives that improve the landscape's condition and capitalize on other natural endowments can support community growth. Initiatives that support special facilities or communitywide activities, such as settler days, can encourage community development. All of these attributes can differentiate communities and generate value.

Across the Atlantic, our European colleagues have shown that highlighting cultural heritage can bring value to communities. Cultural uniqueness can add value by

providing a differentiated lifestyle for rural citizens. Besides developing a unique economy, the goal is to build a unique lifestyle to attract businesses and households. Many European communities have successfully marketed themselves in this way.

Building a unique economy or lifestyle in a rural community can be difficult. At times the market fails to recognize the value of such sources of differentiation. Still, communities can differentiate themselves by initiating policies that counter specific market failures. These localized initiatives are slowly beginning to emerge. Policy initiatives supporting venture capital funds for new startups or expansions are beginning to provide needed capital where the market has failed. Business incubator and other support-system programs seek to develop new entrepreneurs where the market has failed. Initiatives of this type are another vehicle for communities to provide opportunity and create unique differentiated value for residents.

Local Expression

Crafting a new rural policy based on place competitiveness requires a clear vision. The focus of that vision needs to shift from striving to become like the rest of America to becoming different. The first step in this shift is self-identification—recognizing what is unique and valuable about the community. The next step is to articulate the vision through local expression.

The wisdom for this visioning process must stem from the knowledge of the local people and their culture. Put another way, this visioning is often made possible through the social capital of the community. All that a community can and will be is contained in the wisdom and culture of the local people. No one is in a better position to identify the unique attributes of a community than its own citizens. And no one can better express or articulate the uniqueness, the value, and the vision of the community to the rest of America. The necessity of local expression solidifies place-based policy as a grass roots policy emerging from the local community.

Once a community identifies its vision, its economic development strategy must be

carefully tailored to fit that vision. This results in a policy focused on a single region, a single community, or a single neighborhood. It calls for a groundswell of activity at the local level, supported more by block grants to communities than by traditional one-size-fits-all state and national approaches.

Collaborative Action

Local communities, however, cannot initiate place-based policies on their own. Communities are bound together through the migration of peoples and exchange of goods, services, and ideas. Changes in a single community can initiate a rippling effect of changes in neighboring communities. Thus, the opportunities arising in a community depend, in part, on the decisions of other communities. Given the diversity of communities, participation and support at the regional, statewide, and national levels are needed to bind local initiatives together to generate cohesive place-based policies.

Because communities are bound together, place-based policies require communities to think strategically about growth and development. We know the diverse set of resources in

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rural areas on which differentiation can be built yields a host of potential opportunities. The opportunities are multiplied even further by community interdependence.

Which opportunities should communities pursue? The answer lies in collaborative action. Communities must come together in a strategic framework, analyzing the unique features of place that generate value through differentiation, sifting through the opportunities while weighing the uncertainties at hand.

Recognizing that communities are bound together also suggests ways that policy can highlight potential opportunities for cooperation and collaboration. By partnering, com-

munities can undertake development initiatives on the basis of mutual gain. As with businesses, community partnerships must be governed by a contract that specifies goals, roles, responsibilities, and rules for future action. Rural policy is no exception. However, in this case the contract is a *social contract* that outlines the economic and social goals, roles and responsibilities, and rules of future action for both rural America and the rest of America. Strategic thinking is an avenue that guides contract development and the structure of how communities will partner to capture value from the opportunities offered by rural policy based on place competitiveness.

Conclusion

A good starting point for a new rural policy framework is place competitiveness. Place-based policy is effectively a grass roots policy, where local leaders, local residents, and local businesses provide the wisdom and familiarity with the community needed to identify the unique attributes of the community. But to capture the unique value of place differentiation, communities must also behave strategically. Through partnerships, rural communities can acquire additional value by blending together the diversified unique attributes of multiple communities and rural citizens.

Place competitive policy is different from past policy. It focuses on building communities in addition to building economic industries. Instead of enticing communities to become like each other, it praises diversity. By focusing rural development on the cultivation of unique place attributes, communities build value for new and existing rural citizens by providing differentiated lifestyles and business environments. Finally, place-based policy recognizes that by forming partnerships rural communities and businesses can provide more opportunities for all, even if those opportunities are different from one region to the next.

Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

March 31, 2001

Highlights from the first quarter survey¹

- District farmland values continued to rise in the first quarter of 2001, although gains were less widespread than in previous quarters. District irrigated and nonirrigated cropland values rose 1.7 and 1.1 percent, respectively. Kansas, Missouri, and Nebraska posted solid gains in cropland values, while cropland values in Oklahoma and the Mountain states edged up. Rising cattle prices boosted ranchland values in every district state, causing the district average to rise 2.3 percent in the quarter.
- The district farm commodity price index rose in the first quarter. Prices for wheat, cattle, and hogs rose while corn and soybean prices fell. Since March, prices for feeder cattle, hogs, soybeans, and corn have gained ground, but fed cattle and wheat prices have slipped.
- Farm credit conditions weakened somewhat in the first quarter of 2001. The demand for farm loans improved, but loan repayment rates slowed, and loan renewals or extensions moved up. Although district bankers reported an improvement in fund availability, they showed concern over the industry's heavy reliance on government support and a sluggish economy overall.
- Farm interest rates fell in the first quarter. At the end of the quarter, interest rates on new farm loans averaged 9.76 percent for operating loans, 9.60 percent for feeder cattle loans, 9.54 percent for intermediate-term loans, and 8.94 percent for real estate loans. Since March, farm interest rates have fallen along with national money market rates.

Note: 273 bankers responded to the first quarter survey.

¹ Please refer questions to Kendall McDaniel, associate economist, at 816-881-2291 or kendall.l.mcdaniel@kc.frb.org.

Farm Real Estate Values March 31, 2001 (Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	\$654	\$1,096	\$397
Missouri	949	1,140	627
Nebraska	892	1,456	354
Oklahoma	517	757	359
Mountain states*	382	1,181	243
Tenth District	\$702	\$1,203	\$383
Percent change from:			
Last quarter+	1.65	1.11	2.27
Year ago+	4.28	4.06	5.70
Market high	-16.83	-16.48	-6.66
Market low	77.25	76.88	129.37

* Colorado, New Mexico, and Wyoming combined.

+ Percentage changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Federal Reserve Bank of Kansas City

Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand (index)+	Loan Fund availability (index)+	Loan repayment rates (index)+	Average renewals or extensions (index)+	Loan-to-deposit ratio* (percent)	District farm commodity price index (1980=100)
1999						
Jan.–Mar.	105	113	56	143	65.7	86.0
Apr.–June	107	107	71	127	66.5	87.8
July–Sept.	103	90	74	126	67.7	87.0
Oct.–Dec.	100	99	86	115	67.7	91.2
2000						
Jan.–Mar.	107	95	92	108	67.1	97.9
Apr.–June	112	78	86	108	70.4	97.0
July–Sept.	103	85	84	112	70.8	90.3
Oct.–Dec.	106	90	82	120	70.9	99.8
2001						
Jan.–Mar.	111	106	78	123	70.5	102.3

* At end of period.

+ Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City