An Iowa Perspective for Enhancing Rural Development and Vitality in the 2007 Farm Bill

Remarks by Mark A. Edelman
Director, Community Vitality Center
Professor of Economics and ISU Extension Economist
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The Community Vitality Center is a relatively new center that started operations in June 2002 during the last farm bill debate. The CVC mission has been to serve as a catalyst for innovative pilot projects, networking among small and medium size communities, and rural-urban dialogue about policies and strategies for stimulating community vitality in nonmetro areas. The CVC Board is composed of thirty Iowa leaders. About one third of the board represents state and federal development agencies and various facets of higher education in Iowa. The remaining two-thirds represent diverse community leader interests from across the state. We have three initiatives--Community Entrepreneurship, Community Philanthropy, and Rural-Urban Policy Studies--with over 40 projects in Iowa communities. Several board members, staff and my secretary deserve thanks for contributing to my comments. However, I remain solely responsible for any errors or omissions.

I. The Existing Rural Development Tool Box. The very first program CVC organized was a statewide teleconference called "Opportunities for Rural Development in the 2002 Farm Bill" on November 12, 2002. It originated from the IPTV studios and involved nearly two dozen sites. You can still access the conference materials on the CVC web site: www.cvcia.org under "Projects." This is an important starting place for a 2007 rural policy dialogue, because policy development is often incremental and it is important to understand that there are rural development tools that are already in the tool box. Some tools like SBA, CDBG, and CDFI programs are important but are beyond the Farm Bill and Agriculture Committee's jurisdiction. However, several other tools are worth mentioning because they have helped to change the face of economic opportunities for many nonmetro communities in Iowa and across the nation in rural America.

1. Value-Added Agriculture Program with biofuels and energy projects added.
2. First ever "Energy Title" in a farm bill with a federal bio procurement mandate.
3. Rural Economic Development Loan & Grant Program for RECs & Tel. Coops.
4. Rural Telecommunications & Broadband Program with access to global markets as well as assistance for rural telemedicine and rural schools.
5. Water and Wastewater Program to help communities with critical infrastructure.

Lessons Learned:

- There are a number of critical and strategic rural projects happening with support from USDA Rural Development Programs and other Federal agencies that the public seldom knows about. For example many of the ethanol projects have received grants from the Value-Added Ag Program.

- Authorization does not necessarily mean appropriation and implementation. Lots of effort may be used passing new initiatives that are never implemented or funded. The Rural Business Investment Company (RBIC) concept is one example.

This underscores the theme that it is important to know the value of existing programs because it is often easier to protect, sustain, increase flexibility and morph new objectives into existing programs than to create new programs. Historically, rural development programs have often been treated as the orphan child when it comes to funding support.

II. The Farm Bill Context: The second set of points that I would like to make relate to the 2007 Farm Bill context with a view of the policy arena. Farm Bills are never debated in isolation of other global political and economic events. So it is important to recognize the other events that will color the 2007 Farm Bill discussions, which typically occur during the two-year period prior to expiration of the existing farm and rural policy.

- **Federal budget deficits, tax cuts, and cost of war in Iraq** will continue to add pressures for fiscal restraint during the farm bill debate process. Rural constituencies may see U.S. support for rebuilding Iraq infrastructure coming at the partial expense of initiatives for addressing domestic infrastructure needs.

- **Public attention is tough to attract when the farm and general economy is strong.** U.S. Agriculture has experienced record incomes during the past couple of years. The broader Economic Outlook is for a solid general economy but one that is vulnerable to energy costs and global security threats, which may provide some heightened interest in policy tools that address energy and global security.

- **WTO Decision will mandate shifting the form of farm payments.** The U.S. cannot support freer trade on the one hand and ignore the WTO decisions on the other. The general farm and commodity interests will have a strong interest in shifting farm payment streams to WTO "friendly" mechanisms that still add to the farmer's bottom line. Some farm leaders are increasingly acknowledging the dual trends of farm family dependence on off-farm income and the erosion of U.S. competitiveness internationally due to capitalization of program payments into farmland values. So the challenge may be to identify opportunities for shifting farm program payments from capitalizing land values to capitalizing new rural ventures that also add to the farmer's bottom line.

The policy process involves identifying salient and politically acceptable mechanisms that fit with the underlying criteria for addressing the perceived gaps in farm policy. As such, the diversion of farm program payments into energy, environmental, value-added ventures and broader rural development, may have the potential to enhance the income opportunities for farm families and rural people without generating the higher level of capitalization in farmland values. Diverting the noncompliant WTO portion of direct payments to matching payments for farmer savings accounts and farmer investment accounts restricted to capitalizing new value-added and rural development ventures could also make existing farm programs more WTO compliant and add to farmer incomes.

III. Three Potential Opportunities for Added Rural Development Emphasis. In Iowa and many other states, there has been unprecedented dialogue about entrepreneurship, rural amenities, and rural vitality during the past few years. It is difficult to assess at this juncture whether any of these ideas will generate enough constituency base and political support to gain any attention in the next farm bill debate. This does not mean that it is not important to lay the agenda out on the table. One never knows what unforeseen events or unique circumstances will occur during the farm bill debate to cause a major change in the trajectory and outcomes from the legislation. For example, no one predicted at the start of the 2002 Farm Bill discussions that Iowa's Senator Tom Harkin would preside as Chair over key decisions of the Senate Committee on Agriculture, Nutrition and Forestry. So, here is an initial volley of three topics based on a view of what might work from the rural grass roots up from CVC's perspective.

1. Community Capacity to Support Entrepreneurs is a Missing Link. During the fall of 2002, CVC found that 88 percent of the participants in a series of ten community forums favored community initiatives to support entrepreneurs; 67 percent agreed with initiatives to link local entrepreneurs with regional expertise, regional resources, regional development organizations and industry networks; and only 11 percent favored self-help entrepreneurship without public involvement.

A year later in a separate case studies project looking at eight nonmetro communities with populations between 1,000 and 12,000 found that leaders in all eight communities had NO trouble identifying at least one "Homegrown" entrepreneurial business that was started in an earlier decade and was now one of the top employers in the community. However, when asked what the community was doing to support entrepreneurs currently, the most typical response was not much beyond a revolving loan program. When asked about whether they were interested in making their communities more entrepreneur friendly, the resounding response was "Yes, if cost effective approaches for doing so could be found." CVC has been working to identify cost effective approaches for its portfolio that includes: (1) challenge grants for Community Entrepreneurship Centers, Mentoring, and Coaching Networks, (2) nonmetro incentives for the Iowa SBDC MyEntreNet program, (3) nonmetro incentives for the Iowa ISED low-income micro-enterprise entrepreneur program, (4) Community-based Business Plan Competitions, and (5) K-12 entrepreneur experience programs.

Last year's report, "Mapping Rural Entrepreneurship" by the Kellogg Foundation and Center for Enterprise Development was instrumental in pointing out that most of the nation's entrepreneurial support expertise, resources, and assets were located in university-based and metropolitan-based networks and that the challenge was to incent community-based entrepreneurial support capacity that could link to the regional networks and resources where the gaps exist. Iowa has about five Pappajohn Centers, a statewide network of SBDCs, and some additional private sector business incubation and development programs. Most are based in metropolitan and university communities and the SBDCs have been particularly thin in western Iowa with one office for 15 or more counties. Three years of additional state support for eight business accelerators was approved this year. RECs, COOPs, RC&D districts, CDFIs, Extension, FHLB programs, and other rural networks often provide spark and staff capacity, but a sector focus sometimes renders them to be less visible to broader community of stakeholders.

In early June 2005, CVC hosted a National Entrepreneurial Communities Case Studies Workshop with a small grant from the Farm Foundation and assistance from Fairfield's Entrepreneurs. Georgia was identified as a state that has responded to the challenge of creating "Entrepreneurial Friendly Communities." In addition to supporting six specialized entrepreneurial innovation centers, rural communities in Georgia receive technical assistance for implementing "Entrepreneurial Friendly Community" standards such as: (1) creating entrepreneurial support groups, (2) inventorying entrepreneurial support assets and capital networks, (3) providing recognition for entrepreneurial successes, (4) sponsoring entrepreneurial training, and (5) sponsoring entrepreneurial mentoring, coaching, and networking opportunities.

CVC Board Vice Chair Jim Erb, who is also Mayor of Charles City, says the greatest challenge is to identify a stable source of local funding (public or private) that can sustain the Community's capacity and work on entrepreneurship. While outside incentives and program ideas from the CVC, Small Business Development Centers, Sirolli, and the Pappajohn Centers can help, the community stakeholders must make the key investments to assure community-based entrepreneurial support capacity and culture.

2. Rural Wealth Transfer and Capital Investment is an Under-rated Opportunity. Mark Hamilton, a past CVC Board president has always maintained that there is plenty of wealth in rural Iowa, but it is locked up and only made available if we create the right mechanisms to attract this wealth. Too often we lament Iowa's rank as being near the bottom in venture capital among the states. Well most of our capital does not meet venture capital criteria. We desire to continue to own our own businesses. Most venture capital firms look for higher rates of return and exit strategies. While Iowa has been successful in creating a few venture capital funds, most experts suggest that a minimum of $10 to $20 million is needed for professionally managed funds. Iowa's venture capital industry has had some difficulty in attracting the minimums. Yet, a dozen ethanol and biodiesel projects are in the planning and construction stages in Iowa and each is raising a minimum of $30 to $40 million in equity with most of the investors coming from rural Iowa. Such projects provide evidence to Hamilton's point.

A year ago, CVC completed Iowa's first Wealth Transfer Study which provides county-by-county information on the annual probated wealth that is passed to heirs and bequests. In Iowa, nearly $5 billion dollars is annually passed on from one generation to the next. The rate of wealth transfer is expected to occur more rapidly in nonmetro counties due disproportionate share of the population in older age categories and the numbers of people who will pass on. Increasingly this wealth is passed on to heirs who no longer live in the community. If communities do not have the mechanisms in place to attract wealth transfer donors to re-invest in sustaining hometown vitality, a great opportunity will have been lost. Local community foundations are in a unique position to identify critical local needs and to work with a broader range of local government leaders and nonprofits to sustaining the economic base and quality of life in rural areas.

Nebraska, Minnesota, and South Dakota discovered the potential utility of having Community Foundations as a mechanism for attracting and re-investing rural wealth into community sustaining activities before Iowa. However, Iowa is the first state to provide tax credits, matching grants, and gambling revenues to seed such entities in the rural counties of a state. By November of this year Iowa will have 85 countywide community foundations in non-gambling counties that will have a legislated mandate to identify the critical needs of the county, and each will distribute about $50 to $60 thousand in funds to local projects and endowments targeted toward the identified countywide needs. CVC will challenge these groups to consider Community Entrepreneurship Capacity as one of the areas of critical need to sustain the local economic base.

3. Migration Opportunities, Rural Intern Programs, and Modern Homestead Incentives. The final agenda item is related to rural opportunities from migration. The "brain drain" and loss of college-aged youth and retirees have been a concern for years. Only recently are we beginning to understand the variation in strategies that community leaders aggressively adopt or use by default that in turn influence young people, families, new residents populations, as well as retiring seniors. Recent research finds slower income and jobs growth in the ag dependent counties causing some Congressional Members to introduce modern Homesteading proposals to encourage young people to move back to rural America. At the same time, people have been migrating to rural areas with various natural and recreational amenities. CVC's study on "Communities of Distinction" found that loss of a major employer during the 1990s and how quickly the community organizes to recover were key factors in explaining the population growth of the community during the first years of the 21st century.

Some communities are organizing college intern programs that provide an opportunity for college youth to use their academic skills in rural settings. Kossuth County Economic Development initiated a program several years ago has reported up to 60 interns during one recent summer. While two-thirds of the interns were from the region, a third were typically not from the area, but were given an opportunity to experience life and work in a progressive rural community. Iowa State's "Life in Iowa" program represents a similar statewide venture organized by Extension.

Preliminary findings from a CVC migration study imply that local migration trends are often more complex than a simple exodus of high school graduates or retirees. Leaders are generally aware of "net change" in population and migration, however they are often unaware of the community factors that can influence migration or that the migration churn (in-migration plus out-migration) for rural counties is typically in multiples much larger than the "net" numbers reported. For example, the 2000 Census population of Franklin County, Iowa, was 10,094. The population change between 1995 and 2000 was shaped by net out-migration of 582 people, plus births and deaths. But the county's total in- and out-migration churn involved 3,714 people—more than a third of the county's total population. Similar churn multiples are not uncommon for other rural counties, underscoring the potential importance of the CVC migration survey being conducted in three pilot counties during the coming year. A missing element is local understanding about the effectiveness of actionable strategies that influence migration.

At the suggestion of the Iowa Area Development Group, CVC is contemplating an comparative analysis of the cost of doing business in rural America relative to top metropolitan areas in the nation. Some Iowa rural communities have provided illustrative examples of businesses that have relocated to nonmetro Iowa and achieved phenomenal growth due to lower land, labor, and overhead costs in comparison to that which was experienced in the nation's top metro areas. While China and Mexico may have some cost advantages international trade, cultural differences and trade also bring added risks. With commuting times at a fraction of those found on the coasts and broadband access to global markets, many communities in rural America have the assets to compete internationally and provide a higher quality of life.

IV. Will there be a Rural Development Coalition or division? The topics of rural community and economic development are fraught with divisions that potentially impede progress. We should realize that there is not likely to be one silver bullet strategy for all of the diverse communities and rural regions throughout rural America. Local policy decisions regarding the mix of emphasis on retention and expansion, entrepreneurship, or new business recruitment will likely depend on local assets, attributes, proximity, and opportunities. However, without entrepreneurship there would be no new businesses. For some communities, recruiting new business may make sense. These issues are bigger than just the Ag Coalition. They are bigger than the community Main Street and Industrial Development Coalitions. There is a lot that the Ag Coalition and broader Rural Community Development Coalition can learn from each other about entrepreneurial efforts, seed capital, and attracting talent to rural areas if they can work together. One promising model is again provided by the ethanol industry expansion with the emergence of Limited Liability Company business structures that are now being used to attract investment of nonfarm investors as well as farm investors into value added ag projects. In some cases, the nonfarm investment exceeds the investment by farmers. Lincolnway Energy, LLC of Nevada, Iowa is an example: www.lincolnwayenergy.com .

V. In Summary, the WTO decisions and evolving farm bill context appear to generate some opportunities for designing incremental and new policy mechanisms that would add to the incomes of farmers and rural people without further eroding the competitiveness of U.S. farmers by capitalizing direct payments directly into land values. Payment reform and diversification strategies could be designed to make an enhanced contribution to jobs, income, and economic growth rates in the ag dependent counties that have experienced slower jobs and income growth. Such criteria could be an important element in "red state" and blue state" analyses by political scientists. Given the growing dependence of farmers on off-farm income and concerns about brain drain migration, development of community and regional approaches to stimulating new ventures by building community entrepreneurial capacity, identifying actionable migration strategies, and creating community mechanisms to attract local reinvestment of wealth transfer are likely to become increasingly important attributes in creating future opportunities for income, economic growth, and quality of life in rural America.