Why Invest in Rural America— And How? A Critical Public Policy Question for the 21st Century

By Karl N. Stauber, Ph.D.

Significant portions of rural America are in trouble. For some parts of rural America, the slow slide to no longer being viable—economically, socially, or politically—is within sight. At the same time, without intending it, we are headed back to a rural America of the rich and the poor—of resorts and pockets of persistent poverty. Yet most current rural policies do not meet the needs of rural people and communities; they are designed for the past, not the future.

For years, attempts have been made to change rural policies incrementally, but these approaches have largely failed. It is time to consider more fundamental shifts. Some will see segments of this paper as heresy. But as Huxley said in defending Darwin's theory of natural selection, "A heretic is someone who sees a truth that contradicts the conventional wisdom of the institution—and remains loyal to both entities, to the institution and the new truth. Heretics are not apostates; they don't want to leave the 'church.' Instead they want the church to change, to meet the truths they have seen halfway" (Kleiner).

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Let's face facts—rural policy in America is unfocused, outdated, and ineffective:

- Today's rural public policy is not the product of contemporary, thoughtful, and informed public debate.
- Today's rural public policy is not based on carefully crafted, desired, public policy goals.
- Today's rural public policy is largely a "one size fits all" approach to the significant diversity that is rural America.
- Today's rural public policy consists of isolated elements of sectoral policy created without regard to extrasectoral effects.
- Today's rural public policy is often urban policy that is poorly modified to fit nonurban settings.
- Today's rural public policy is often national policy that has been created with little or no thought for its implications for rural communities.
- Today's rural public policy is based on the erroneous assumption that there are public institutions that serve the unique needs of rural areas.

In terms of public dollars committed, rural policy now focuses primarily on two areas—agriculture and manufacturing. Neither focus is currently effective. A recent review of the literature revealed not a single study supporting the efficacy of current federal agriculture policy—including producer subsidies, export enhancements, and publicly supported, efficiency-oriented research—as a basis for rural development. This year's direct subsidies are expected to be approximately $25 billion; there is no convincing evidence that they will improve the economic viability of rural communities.

In fact, current federal agricultural policies are actually hurting rural communities—by absorbing the vast majority of the resources directed to rural areas, by continuing the myth that rural and agriculture are the same, and by making it difficult for rural communities to develop new areas of competitive advantage. Furthermore, these huge payments are likely to translate into higher land prices for farmers, thus raising capital costs, which will lead to more debt and may lead to more intensification of agricultural practices. The intensification of farming may in turn reduce risk taking and entrepreneurship in rural areas, activities contributing to economic growth according to the development literature.

What of the other primary rural policy focus? State-encouraged manufacturing that is dependent on low-wage, low-skill employees for its competitive advantage will rarely be the basis for successful rural economic development. This was a key state government development strategy in many rural areas beginning in the 1950s. Government policies that promoted the transfer of these types of jobs from urban to rural areas worked until the 1980s. But with increased international competition, these jobs are now moving offshore or being replaced with technology. By the 1980s, "a key source of rural disadvantage was excessive concentration of employment and output in 'routine' manufacturing, typically assembly of products at the mature end of product cycles" (Galston and Baehler). For rural manufacturing to continue as a significant economic engine it must adopt new approaches to creating and maintaining competitive advantage.

I. WHAT GOALS SHOULD RURAL PUBLIC POLICY PURSUE?

Success is not about the survival of individual firms or communities; it is not about the economic well-being of individual families. These are all important to rural communities, but they are equally important to urban and suburban areas. Success must be defined in ways that are specific to rural communities.

I believe public policy in rural America must produce three societal benefits:

- Survival of the rural middle class
- Reducing concentrated rural poverty
- Sustaining and improving the quality of the natural environment

The middle class are leaving many parts of rural America—particularly the isolated and low-amenity, resource-dependent areas. They are leaving because they cannot find the opportunity they want to support their families. Many don't want to leave. They want to stay for moral and cultural reasons—small towns are a great place to raise kids, they can count on their neighbors to help, they are part of a community.

On our current trajectory, we are headed for significant portions of rural America that are largely populated by the poor and the rich, and the small middle class that serves both groups. A fundamental goal of rural development must be the survival of the middle class. Without the middle class, rural America will become the involuntary home of the poor and the chosen home of the pleasure seekers, producing a rural ghetto and a rural playground. We can already see where the playground will be (Figure 1).

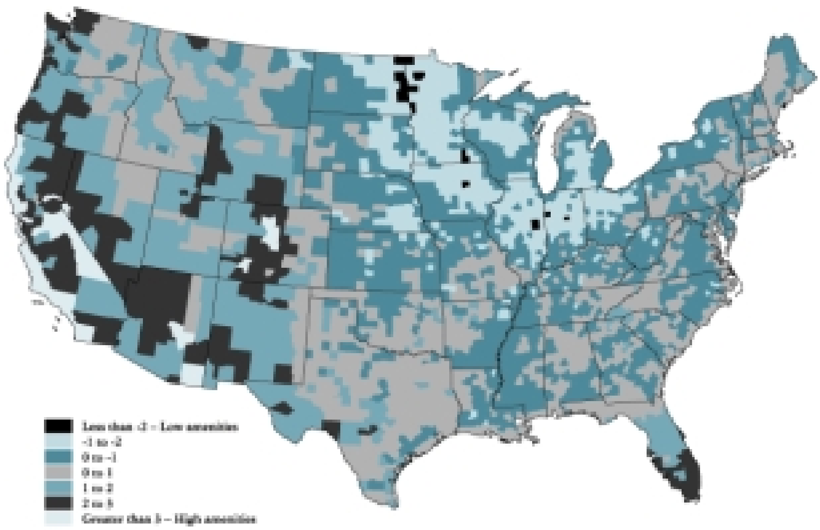
Rural poverty is a major challenge. In some parts of the country, the rural ghetto already exists. While rural areas experienced absolute job growth between 1990 and 1996, rural poverty continues to be a problem, and there is a continuing pattern of the concentration of poverty in specific areas. Rural poverty is generally higher than urban—15.9 percent to 12.6 percent in 1997. Between 1997 and 2000, urban poverty declined while rural poverty remained unchanged. Two-thirds of the rural poor live in families where at least one adult works full time. Rural children are more likely to live in poverty than their urban counterparts—22.7 percent compared to 19.2 percent (Fluharty). If one reviews the statistics of rural poverty over the last several decades, the pattern of concentration is clear (Figure 2).

The rural ghetto, if it is allowed to continue and expand, will be a powerful symbol of failure *in* America and *of* American culture. It will mean that America accepts the idea that success and prosperity should be allocated based on race and location, rather than being available to all.

The third component of success must be sustaining and improving the quality of the natural environment. In *Rural Development in the United States: Connecting Theory, Practice, and Possibilities*, William A. Galston and Karen J. Baehler propose:

> Rural place is ideally defined by its three fundamental characteristics. The first is a *relation to nature*, in which the human use of natural objects and processes is guided by notions of balance, affection, and care. Earth, water, and resources are all reshaped by human contrivance, but with a steady awareness of their limits and of the need to ensure their continued existence over time (p. 3).

Figure 1
WHERE THE RURAL PLAYGROUND WILL GROW



Sources: USDA, ERS

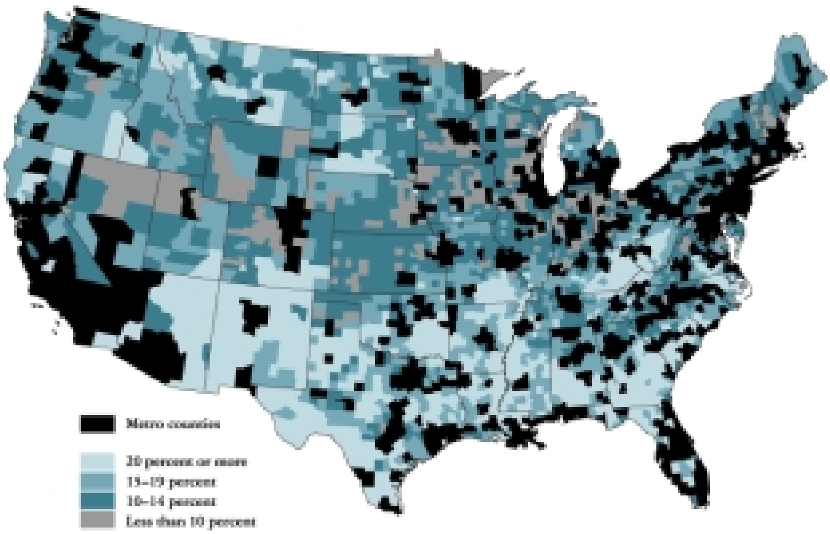
Relationship to nature is one of the key determinants of what is rural, maybe *the* key determinant. Rural communities are not an artificial construct that can be laid upon the landscape like Levittown or Disney World. Rural requires a symbiotic relationship with place. Otherwise, it is urban or suburban. When rural development destroys or seriously degrades the natural environment, it destroys the core basis for "ruralness."

II. PAST EFFORTS AT COHERENT AND COMPREHENSIVE RURAL POLICY

In trying to answer the question "Why invest in rural America?" we must be aware of both private and societal interests. In the past, rural America has benefited from both individualistic political power and shared social contracts.[1] But as Faulkner said, "The past is not dead. It isn't even past."

Figure 2

RURAL POVERTY RATES, 1997



Source: U.S. Census Bureau, Small Area Income and Poverty Estimates, 1997

All public policy is based on the intersection of individual and societal interests. Priscilla Salant and Paul W. Barkley suggest,

> For centuries, people with like interests have banded together into groups and agreed on rules for their collective behavior. Some groups have been simple…others have been complex…. The common thread through all has been a reciprocal agreement specifying what individuals owe to the group and what the group owes in return (p. 8).

Rousseau and other 18th century philosophers argued that this shared interest is the basis of the social contract which remains important today (Rousseau). President George W. Bush said in his 2001 inauguration speech:

> What you do is as important as anything government does. I ask you to seek a common good beyond your comfort; to defend needed reforms against easy attacks; to serve your nation, beginning with your neighbor. I ask you to be citizens. Citizens, not spectators. Citizens, not subjects. Responsible citizens, building communities of service and a nation of character.[2]

America has a long history of social contracts forming the basis of rural public policy. From 1500 to the 1700s, rural America was America.[3] Urban areas, growing largely around transportation hubs, existed to serve rural populations. From the very beginning the goal of rural Americans was to produce surpluses and sell the excess, often to buyers from other continents. The concept of the social contract between the citizens and the state did not really exist, as there were no citizens. If there was a contract it was between the crown and its subjects, based on royal interests rather than common ones.

As urban America became increasingly important economically and politically, rural policy shifted and became more distinct. From the end of the American Revolution to the late 1800s, Americans invested in rural America under the social contract that can best be characterized as the *Frontier*.[4]

The United States agreed to provide targeted assistance to rural (almost entirely Euro-) Americans based on the benefits they provided to society. The assistance included government-sponsored exploration, military protection, government-sponsored displacement of the existing cultures and people to benefit Euro-Americans, and federally supported enterprises designed to compete with English, Spanish, French, and Russian commercial interests along the frontier.

Rural people provided reciprocating economic, cultural, and spiritual benefits to the larger society. The economic benefits were multiple. Rural America produced food and feed needed to support the growing urban population. As important, rural raw materials (cotton, tobacco, timber) were critical to balancing the nation's early trade deficit. Without these trade items, the United States would have lacked much of the "hard" currency to grow its economy.

The cultural and spiritual benefits were also multiple. The frontier distinguished the young nation from its European antecedents. America was not just an economically and culturally poor derivative of Europe, it was thought to be different from and maybe even superior to Europe. The frontier tested American will. It was the place where Americans did God's work, bringing civilization to the "savage," taming the wilderness. The rural frontier was where America showed its rugged, individualistic superiority over "soft," overly cultured Europe.

The frontier was also a source of hope for Americans. If your farm in Vermont failed, you could move to Ohio, then Wisconsin, and then Montana. As Laura Ingalls Wilder showed in her books, opportunity was always over the next hill; failure was something to leave behind. The frontier also provided an outlet for America's semiskilled. Horace Greeley's "Go west, young man!" sums it up. During virtually the entire Frontier period, farmers were the majority of the American workforce. By 1880 farmers were less than 50 percent of the workforce, and the decline was rapid from there (Economic Research Service 2001b).

By the 1890s, the frontier was largely gone and a new rural social contract had emerged—the *Storehouse* social contract. The urban Industrial Revolution had come to America. Rural America was now the place that provided the commodities to feed the urban machine. In a short period after the Civil War, rural America went from defining America to supplying it. By the 1920 Census, less than half of Americans lived in the rural portions of the country. By the end of the Storehouse period, the rural population was down to slightly more than one quarter (U.S. Census Bureau).

The Storehouse social contract clearly benefited both the urban majority and the rural minority. The urban majority received affordable raw materials, surplus financial capital, and motivated, English-speaking workers. Rural America benefited from public investments in institutions designed to increase the flow of raw materials and the efficiency of their production. Examples included subsidies to rail and water transportation, opening of public lands to mining and logging, construction of massive irrigation projects for agriculture, development of rural electric and telephone systems, direct subsidy to farmers producing major crops, and underwriting of public research and extension programs to benefit primarily farmers and ranchers.

The end of the Storehouse social contract became apparent in the Carter Administration when America's last farmer-president called for a shift from policy that assured minimal public service to all, to a new policy strategy that promoted lowest-cost services to the urban majority. This "economy of scale" policy was first apparent in the deregulation of the airline industry. Other types of deregulation in the Reagan Administration quickly followed. In the Storehouse period, urban people subsidized the provision of services in rural areas. But with deregulation the subsidy was reduced or ended, putting most rural communities at a disadvantage. Americans, intentionally or not, came to the conclusion that the social contract of the Storehouse was no longer worth the subsidy. From the perspective of the urban majority, there is no longer a compelling social or self-interested reason to subsidize rural enterprises and people.

III. THE RULES HAVE CHANGED

Since the 1970s, there has been no social contract between the urban majority and the rural minority. The rural minority have been able to hold on to some elements of their past social contracts—such as farm subsidies, federally funded agricultural and forestry research, and significant transportation subsidies on rivers like the Columbia and the Mississippi—but only because of the structure of Congressional committees and the political power and savvy of rural special interests, especially farmers and ranchers.

Another major change since the 1970s is that America has become a suburban nation:

- 1990—the first time more than 50 percent of Americans lived in metropolitan areas larger than one million people;
- 1992—the first time the majority of votes cast for president were cast in suburban districts;
- 1994—the first time that suburban representatives occupied all the top five positions in the U.S. House;
- 1996—only 76 of the 435 Congressional districts were predominantly rural;
- 2001—the 2000 Census shows America is a suburban nation. The majority of Americans live in suburbs, and the majority of political power is there.

As Nicholas Lemann said in "The New American Consensus: Government of, by, and for the Comfortable," a 1998 article in the *New York Times Magazine*, "any project that entails government acting in the broad national interest (rather than the narrower interests of the suburban middle class) probably won't get done" (p. 68).

Americans, particularly suburban ones, now question the desirability of subsidizing others, urban or rural. Put simply, the majority of Americans now ask, "Why should I take money out of my pocket to make your life better? What do I get in return?" Without a social contract, rural America will be left to purely market-based opportunities. And how do we create a new social contract without our rural remnant power bases attempting to destroy those who propose change and new priorities? The old justifications no longer work for investing in rural areas.

Edward L. Glaeser, professor of economics at Harvard University, does an excellent job of capturing the skepticism about a rural social contract in the August 12, 1999, issue of the *Wall Street Journal*. In it he states,

> Economists have long argued that place-based programs are a mistake. They strongly prefer person-based policies that create transfers, entitlements, or relief from regulation on the basis of personal characteristics....Place-based policies, on the other hand, give transfers or other government support on the basis of location....The problem with place-based programs is that they create incentives to keep the poor in the ghetto....Place-based programs also suffer from the fact that their benefits go disproportionately to property owners in the targeted areas—and not to the intended beneficiaries.

Glaeser's position portends the second major "rule" change—we are now in a global economy; we compete in the world, and place no longer matters.

Rural America has always been a supplier in the global economy. In the first half of the 1700s, trees in rural New Hampshire were reserved for the English Royal Navy. The early development of North Carolina was around ships' stores and tobacco, both intended almost exclusively for export. But it has been a long time since rural America was the low-cost producer of food, fiber, raw materials, or cheap labor. As the last few decades have demonstrated, leaving rural America to a low-cost strategy means, for most people and communities, leaving rural America.

Commodities compete on price. In a global market, rural America's historic competitive advantage of being a low-cost producer is largely gone. Rural America no longer "feeds the world" because other countries produce similar or higher quality commodities at a lower cost. In fact, in *The End of the American Farm?* Stephen Blank argues,

> Most Americans could care less if farming and ranching disappear, as long as they get their burgers and fries....The U.S. economy no longer needs agriculture and is rapidly outgrowing it....The high costs of producing food in America, compared

with the costs in poorer countries, are pushing American producers out of business as foreign competitors develop enough to serve the same markets.

Similar arguments can be made about oil and gas, coal and iron ore, timber and other fiber sources, and low-skilled labor.

Rural America used to be America's storehouse—today the world is America's storehouse. Agricultural rural America likes to claim, "We feed the world." In fact, rural America no longer feeds the world—it no longer feeds America. Today, America eats wherever it is convenient and cheap.

If Blank is right about rural America's increasing comparative disadvantage producing commodities and we do not mitigate the effects of market forces, what percentage of the rural population will survive? Should we adopt Glaeser's approach and encourage rural people to move to where the opportunities are?

One of the reasons that suburbanites don't want to make public investments in rural (or innercity) America is because they don't believe the investments make a difference. The Republican revolutions of 1980 (Reagan) and 1994 (Gingrich) were largely about a rejection of activist government as ineffective. While the suburban majority may not be activist enough to stop many of the "wasteful" programs targeted by David Stockman and John Kassich, they do want smaller government and more effective government.

IV. WHAT DO WE KNOW ABOUT WHAT WORKS AND WHAT DOES NOT?

A review of the development literature (not just the rural development literature) written in the last few years suggests we know a fair amount about the critical elements of success. These books are written from very different perspectives but lead me to three conclusions:

- Communities and firms without competitive advantage will not prosper—they lapse into decline or subsistence.
- Nations, communities, and firms that prosper constantly invest in creating new competitive advantage rather than protecting old advantage. Risk-taking entrepreneurs are one of the keys to the continual seeking.

- Economic improvement and growth alone are not enough to sustain communities. They are necessary, but not sufficient. Communities that survive and prosper also invest in building the social and human capital of their institutions and people. But communities with high social and human capital and declining economic opportunity are not likely to have positive futures.

In *The Competitive Advantage of Nations* Michael Porter states, "Firms will not succeed unless they base their strategy on improvements and innovation, a willingness to compete, and a realistic understanding of their national environment and how to improve it" (p. 30). He goes on to argue that America is beginning to falter because of declining investments in innovation (p. 532). Productivity is the root source of America's standard of living. Without continuing investments in increased productivity (not just efficiency), quality of life will decline (pp. 617–18). Without competitive advantage, firms will decline. Competitive advantage comes from two sources: low cost or differentiation. The producer that seeks differentiation provides highest quality or special service or features. No firm can produce both advantages; the firm must decide which to create and exploit (p. 37). Porter's work on inner cities suggests these same concepts apply to communities, including rural ones, and his international work suggests parallels between developing nations with their dependence on cheap labor and natural resources, and rural America (p. xviii).[5]

Davis Landes, in *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor*, takes a somewhat different position: "If we have learned anything from the history of economic development, it is that culture makes all the difference" (pp. 516-17). He argues that it is the "outsiders" (economically, socially, and culturally) who come in, take up the "messy" work society no longer is willing to do, and become the new source of economic energy, the source of renewal. But it is not just the culture of the outsiders that matters. Landes sees the Southern American colonies having fallen behind their Northern peers because of their "anti-industrial values and culture" and their lack of "inventive activity and entrepreneurial talent" (p. 299). It is still about economic improvement. Without the right culture there is no economic improvement, no constant striving for comparative advantage (p. 308).

Nobel Prize winner Amartya Sen argues in *Development as Freedom* that economic and political freedoms are intimately linked (p. xii). The freedom of individuals, families, and voluntary groups to seek improvement and increased well-being is "a major engine of development" (p. 4):

> Freedoms are not only the primary ends of development, they are also among its principal means....With adequate social opportunities, individuals can effectively shape their own destiny and help each other. They may not be seen primarily as passive recipients of the benefits of cunning development programs (pp. 10–11).

Freedom, not simply economic wealth, is the principal goal of development.

In *A Brighter Future for Rural America? Strategies for Communities and States*, DeWitt John, Sandra Batie, and Kim Norris studied a series of successful rural communities. Twelve quantifiable factors, such as population, percent in specific sectors, and percent graduated from high school, explained 20 percent of the success. They found that eight critical factors—recruitment and entrepreneurship, manufacturing and services, progressive firms, ongoing local economic development efforts, a "pro-growth" attitude, finances and infrastructure, local leadership, and support from outside the community—explain the majority of the success.

Cornelia and Jan Flora's work further explores successful rural, entrepreneurial communities. They found successful communities have key attributes: community controversy is accepted; schools have a major focus on academics, not sports; local people have combined enough financial resources to support some joint risk taking; people are willing to invest financial surplus in local private enterprises; people tax themselves to support local infrastructure; community is defined broadly and inclusively, rather than there being competition among smaller units; there is adequate local social capital to "direct resources, particularly information, to the community"; and community leadership is dispersed and flexible.

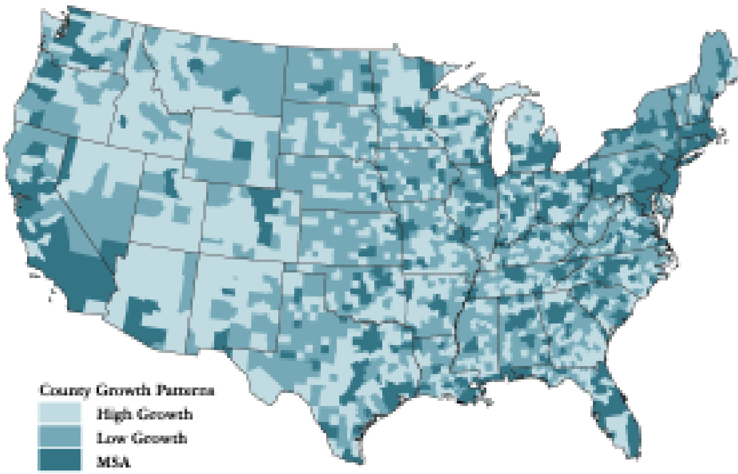
Cynthia Duncan's work in *Worlds Apart: Why Poverty Persists in Rural America* comparing poor families in Appalachia, the mid-South Delta, and rural New England adds to our understanding of how some rural people overcome poverty, while others are trapped in it. Rural communities where "mutual interest" is high and there are inclusive, integrated networks and institutions that promote work effectively across class lines are more successful in reducing poverty. These communities also benefit from continuing linkages to urban centers. Communities that experience high levels of class division and domination by economic and social elites are less successful in reducing poverty.

Vaughn Grisham's multidecade examination of why some poor rural communities, notably Tupelo, Mississippi, succeed in reducing poverty and increasing the well-being of the middle class has several lessons for other areas. Grisham's work has explored how a significantly disadvantaged community can, over time, become healthy. The understandings emerging from this work show leadership is critical—there must be a small group or an individual completely dedicated to revitalization; efforts must be sustained over decades—there are no "short-term" fixes that work; there must be early successes and they must be visible to all in the community; efforts must produce new jobs in the community and then the wage structure must be improved; community work must begin with an honest and forthright identification of who the disadvantaged are and why they stay that way; and communities must be aware of the global economy and how they can take advantage of it (Grisham and Gurwitt).

But, as Mark Drabenstott and Tim Smith point out in "Finding Rural Success: The New Rural Economic Landscape and Its Implications," less than a quarter of all rural counties experienced growth in income and employment in the 1980s. The trends in the 1990s shared some of the same patterns.

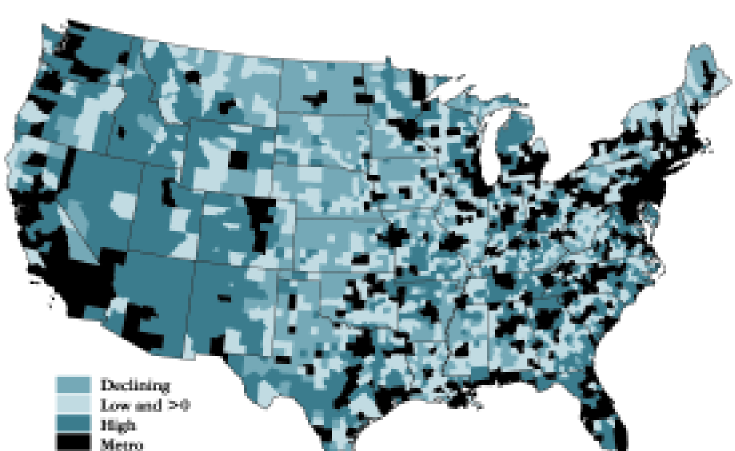
In the 1990s almost half of rural counties were losers in population and employment growth (Figures 3 & 4). Which rural areas were "winners"? They were counties with economic bases in retirement (25 percent), trade centers (35 percent), and manufacturing (20 percent). The winners formed clusters, although they are dispersed throughout the country. Key clusters—like the Northeast, east Texas, and Florida—include scenic amenities and proximity to growing urban areas. The "losers" were without retail centers (37 percent) or were focused on farming (22 percent) or manufacturing (16 percent) areas. The losers were concentrated in the Great Plains, the western Corn Belt, and parts of the Northern Rockies, as well as in the farm-dependent parts of the mid-South (Drabenstott and Smith).

Figure 3
EMPLOYMENT GROWTH IN RURAL AMERICA, 1990–98



Source: BEA

Figure 4
POPULATION GROWTH IN RURAL AMERICA, 1990–98



Source: BEA

V. A NEW STRATEGIC BASIS FOR RURAL DEVELOPMENT

In the past, rural America both benefited and suffered from being seen as a single place that could be served by standardized policies. The benefits of this unified approach, especially in the last 70 years, have been largely political, and farm-related interests have garnered the major share. Despite the minority status of farmers, their political influence has been enhanced by acting as if they all produced corn, wheat, and cotton. Producers and some communities in the Columbia and Mississippi river drainages have benefited from a political strategy that presents their locks and dams as good for all farmers. Congress could enact national milk pricing policies in the 1930s, but not today.

The reality, of course, is that there is no one rural America; there are several. Focusing on the types of areas that represent the complexity of rural America allows policymakers to target desired outcomes and strategies, rather than creating national or state development policy based on inappropriate large-scale norms. Because no standard typology exists, this paper will use the following four rural types:[6]

- Urban periphery—rural areas within a 90-minute commute of urban employment, services, and social opportunities
- Sparsely populated—areas where the population density is low and often declining and therefore the demand for traditional services, employment, and social opportunities are limited by isolation
- High amenity—rural areas of significant scenic beauty, cultural opportunities, and attraction to wealthy and retired people (Figure 1)
- High poverty—rural areas characterized by persistent poverty (Figure 2) or rapid declines in income

But *rural types* alone are not enough. A set of agreed-upon *outcomes* is needed. As discussed above, the societal benefits of successful rural public policy include:

- Survival of the rural middle class
- Reducing concentrated rural poverty
- Sustaining and improving the quality of the natural environment

But what are the public outcomes that should be pursued to achieve these benefits? For this paper, the following outcomes will be explored briefly:

A. Increased human capital
B. Conservation of the natural environment and culture
C. Increased regional competitive investments
D. Investments in infrastructure that support the expansion of newer competitive advantage, not the protection of older competitive advantage

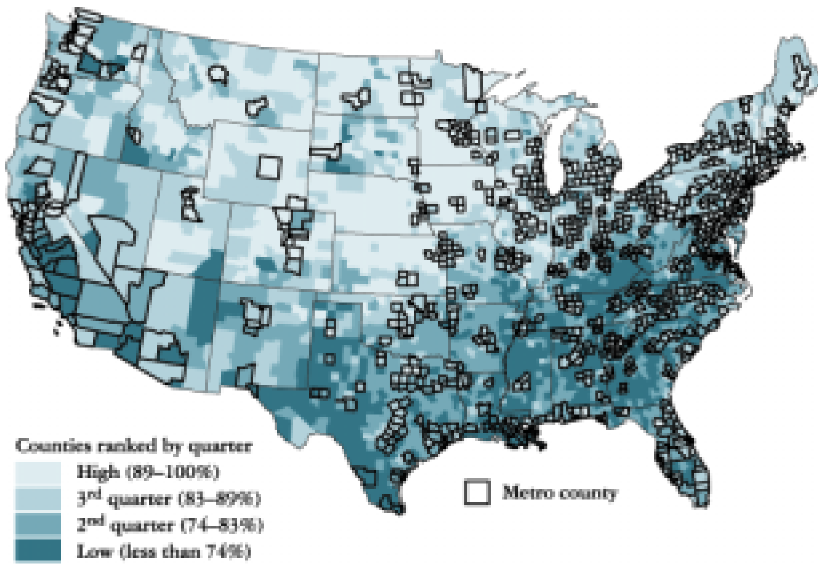
All four proposed outcomes have some basis in current practices but represent significant shifts from established directions. Local, state, tribal, and federal efforts already invest sizable amounts in human capital (A) and in conserving the natural environment and culture (B). But virtually all levels of government have been less involved in increasing regional competitive investments (C) and investing in infrastructure that supports expansion of competitive advantage, not the protection of competitive advantage (D).

A. Increased human capital

Almost all the references cited above point to the critical importance of investing in human capital. For example, Galston and Baehler say, "Robert Reich has argued that as every advanced economy becomes global, skills and cumulative learning of the workforce become the key to national competitiveness. In fact, American competitiveness should be defined as the capacity of American workers to add value to the world economy" (p. 50). But it is not just the workforce. Without highly skilled managers and entrepreneurs, America simply becomes a processing facility for the innovations of others (pp. 50–51).

At the current time there are three major policies for investing directly in rural human capital, and all have become defined by their institutional settings rather than their outcomes. The land grant university system, with its extension and experiment stations programs, is dominated by agricultural and nonrural activities. Of the over 70 land grant universities (not including the tribal colleges and universities), all

Figure 5
PERCENTAGE OF YOUNG ADULTS (AGES 25–44) WITH HIGH SCHOOL DEGREES, 1990



Source: U.S. Census Bureau

have colleges or schools of agriculture; none have invested to a similar extent in programs in rural development. These institutions do an excellent job of training the technical elite of America's food and fiber processing sectors. But, given that the majority of jobs in food and fiber processing and production are in metropolitan areas (Economic Research Service 2000, p. 25), land grant universities, rhetoric aside, are no longer a major force in the development of human capital for rural America.

The second public policy for developing rural human capital consists of investments in tribal colleges, community colleges, technical institutes, and regional public colleges. The track record of these institutions is mixed. Many are hobbled by inadequate funding and confusing mandates—training people for jobs that will never lead to adequate family incomes, for example, or jobs that are in decline. However, some of these regional or community institutions play a critical role in rural redevelopment. The Rural Community College Initiative, funded by the

Ford Foundation and operated by MDC of Chapel Hill, North Carolina, is an excellent example of how tribal and community colleges can become critical forces for rural economic and community development.

The third public approach is the oldest—support for public education in rural areas. One-fourth of all American schoolchildren attend rural or small-town schools. The experience and success of rural students are highly variable and often related to poverty. Poor education often means poor people. According to the Economic Research Service (2001a), "Seventy-five percent of the nearly 295 rural counties that had poverty rates of over 25 percent in 1995 were also low-education counties. In contrast, only one of the high poverty counties was a high-education county." Low education counties are those in the bottom quartile in high school graduation rates in 1990 for 25- to 44-year-olds (Figure 5). The Rural School and Community Trust has recently released *Why Rural Matters: The Need for Every State to Take Action on Rural Education*, which outlines a series of steps states should take to improve rural education. Rural communities are fond of saying that their town "is a great place to raise kids." If the children are poorly educated, how can this be true?

B. Conservation of the natural environment and culture

Conserving the natural environment is of concern to both the suburban majority and the rural minority. The conflict is over how and why to conserve. Some want to return at least a portion of rural areas to pristine wildernesses, to preserve nature for its own sake or for spiritual fulfillment. Others see the natural environment as a source of economic opportunity that needs to be managed for sustained single or multiple use. These perspectives become the source of significant political conflict, particularly at the intersection of high amenities and sparsely populated regions, especially when publicly owned resources are involved.

C. Increased regional competitive investments

Much of existing policy that benefits rural areas focuses on the competitive capacity or the well-being of individual households, firms, or communities. Rural water and sewer programs primarily benefit small, individual communities. Commodity payments are made to individual farms. Much of Economic Development Administration support is focused on individual firms. According to a 1989 Government Accounting Office study, "More than 70 percent of federal spending in rural America…is actually a redistribution of income to individuals in the form of transfer payments (farm subsidies, social security, welfare) rather than a grant of funds directly to rural governments or nonprofit organizations" (Flora and Flora, p. 197).

Because of their sparse and spread out populations, rural areas have trouble supporting the economic and social capacities that sustain community. While we typically think rural means small places, the opposite is true. Rural residents have to travel long distances to meet their needs. Rural actually means large, but many public investments continue to focus on small, isolated areas (Wilkinson, p. 8). In the 1930s, the Rural Electrification Administration realized that service could not be effectively provided individual by individual, or even small town by small town. A regional approach was required to insure economic viability. A similar approach is needed to increase regional, not single-firm, competitiveness.

If rural communities are to survive, they must figure out ways to connect to each other and to robust urban areas. As Galston and Baehler suggest,

> The emerging importance of size for community survival suggests that institutional change is essential. Small communities must seek to break down political boundaries and form new cooperative political units for education, service delivery, and public entrepreneurship—units that more closely correspond to the real scope of contemporary economic and social life. Recent trends suggest that only through such cooperation can many of the smallest communities hope to avoid continual decline and eventual extinction (p.21).

Public investments must shift from individual enterprises and communities to regions. This does not mean that state or national governments should mandate whether consolidated rural high schools are better than small ones. The desired "end" is that rural communities have the competitive capacities they need by joining together. The means should be left to the local communities.

D. Investments in infrastructure that support the expansion of newer competitive advantage, not the protection of older competitive advantage

With the domination of agricultural policy over all other aspects of rural development, the United States is committed to the protection of old competitive advantage rather than to the development of new. This "hind-sighted" policy approach is not unique to our time or our country. In the late 1600s and 1700s, according to Landes, the Dutch were positioned to be one of the dominant economic forces in the world. But they lost their position, largely to the English, because they rejected modern technology and became risk averse (pp. 445–47). Porter says, "Government policy must be concerned with laying the foundation for upgrading competitive advantage in a nation's industry and prodding firms to do so. Too often, however, policies are addressed toward preserving old advantages and actually deter the upgrading process" (p. 622).

While government support of rural areas is significant, agricultural subsidies remain the largest single portion (Flora, p. 197). And with the huge payments under the Freedom to Farm Act, the disparities between new and old advantages may have become larger. And what is the impact of subsidies, especially subsidies that have existed for nearly 70 years? "Ongoing subsidies dull incentives and create an attitude of dependence. Government support makes it difficult to get industry to invest and take risks without it. Attention is focused on renewing subsidies rather than creating true competitive advantage....Once started, subsidy is difficult to stop" (Porter, p. 640).

Fundamental structural change is redrawing the rural economic map. "Winners on this new map are scarce and appear to depend on economic synergy and lifestyle amenities, rather than on the natural resource endowments that used to guarantee rural success" (Drabenstott and Smith, p. 180). Public policies must change to support a forward, developmental mode rather than the current historic, protective approach. So instead of continuing to support a worldwide network of federal employees who promote the sale of low-value agricultural commodities, we should invest in the creation of regional marketing capacity that helps rural enterprises produce and market high-value goods and services other areas want. Instead of building and maintaining 19th century technology like locks and dams, help create information technology that distributes future goods and services in the 21st century.

VI. A NEW STRATEGY FRAMEWORK

As a nation, we can craft a more successful and coherent rural policy by considering these desired outcomes in the context of a diverse rural America. While this approach is conceived as a federal tool, it also applies to most states.

Here I propose a few strategic directions at several of the intersections of the new framework (Table 1). My exploration is necessarily limited, but it illustrates the possibilities of this matrix approach. No one of these policies pertains to all intersections, which simply reflects the benefit of the targeted approach.[7]

- *Redefine and restructure the rural-serving college and university so as to increase human capital in sparsely populated and high-poverty rural areas—Intersections A2 and A4*

Current federal and state postsecondary education, extension, and research expenditures are not well targeted to benefit rural communities in general or sparsely populated and high-poverty areas specifically. In fact, one could argue that the primary beneficiaries of current federal expenditures in these areas are largely metropolitan, as that is where the majority of the consumers and processors are located. The majority of graduates of land grant universities also are in metropolitan areas (Economic Research Service 2000, p. 25). Through USDA alone, federal support of nonfederal education, research, and extension is over $1 billion.

The federal government should replace the 19th century land grant university with the 21st century information grant institution—information grants because today the federal government has a surplus of information, rather than land.[8] It is time to cancel the Morrell Act and related legislation and replace them with a new human capital development social contract—a social contract that explicitly focuses on reversing economic stagnation and social decline. (This does mean that the federal government should stop funding agricultural research at intramural or extramural facilities.)

Table 1
STRATEGIC DIRECTIONS FOR THE NEW RURAL FRAMEWORK

Outcomes/ rural types	1. Urban periphery	2. Sparsely populated	3. High amenity	4. High poverty
A. Increased human capital	A1	A2	A3	A4
B. Conservation of environment & culture	B1	B2	B3	B4
C. Increased regional competitive investments	C1	C2	C3	C4
D. Investments in infrastructure to expand competitive advantage	D1	D2	D3	D4

Based on a competitive process open to a wide array of institutions, the federal government would select five proposals from sparsely populated regions and the same number from high-poverty regions for at least ten years of federal support. These institutions would be charged with creating the developmental opportunities needed to help people and organizations in these targeted areas compete in a global economy. They would have rich experience to draw upon, including the best efforts of organizations like the Appalachian Regional Council; the Foundation for the Mid-South; the federally funded, regional rural development centers; the North Carolina Rural Economic Development Center; and the rural community development corporations created by the Ford Foundation.

- *Create new market demands and linkages so as to increase regional competitive investments in urban periphery and sparsely populated areas—Intersections C1 and C2*

The federal government currently spends approximately $90 million per year in subsidizing the export of agricultural products (Economic Research Service 1998). The Bush Administration has recommended expanding these initiatives based on the argument that they help create new markets and maintain current ones. Many states also have related export-marketing initiatives in agriculture. However, the primary beneficiaries of these programs are large commodity producers and U.S. businesses that specialize in commodity exports.

These programs were designed to sell America's agriculture surplus. Today many nations focus their agricultural strategies not on surplus, but on virtually their entire production. The United States has a significant potential competitive advantage in agriculture because of the size of its domestic market. The question becomes how to develop that domestic market in a way that explicitly benefits urban periphery and sparsely populated regions.

Porter argues that domestic consumers play a critical role in providing firms with competitive advantage. A firm or cluster of firms will do better in the global markets if it has local buyers who are "among the world's most sophisticated and demanding for the product or service....Sophisticated and demanding buyers pressure local firms to meet high standards in terms of product quality, features, and service" (p. 89). But today the American farmer is virtually disconnected from the American consumer. How do we reconnect the producer and consumer in a way that takes advantage of Porter's strategy that "pushy" domestic consumers lead to stronger global advantage?

State and federal governments should move away from agricultural export enhancement to focusing on "demand" enhancements, both domestic and international. But given the size and importance of the U.S. domestic market, it should be a major focus. One version of the "new market demand" approach should focus on opportunities in urban periphery regions. Agricultural producers within 75–100 miles of metropolitan areas are already taking advantage of the situation that Porter describes. Periphery producers have the opportunity to become international leaders in the techniques and benefits of producing higher value crops and products like fresh organic food. However, with the exception of a few small programs operated by states and USDA, government has largely ignored these innovations. With governmental support, these periphery opportunities could become a source of economic revitalization for a portion of domestic agriculture.

A separate approach should focus on creating new market opportunities in sparsely populated areas. As the *2000 Annual Report of the Center for the Study of Rural America* points out,

> Amid the year's financial struggles, farmers also faced a burgeoning long-term decision between a business plan focused on traditional commodities and one focused on new consumer products. For producers who stay tied to commodities,

> the future likely promises volatile prices, razor-thin margins, and an unrelenting hunt for scale economies. In contrast, producers who choose to market products through supply chains may find wider margins but share market risk with other chain members (p. 8).

Federal, state, tribal, and regional associations of local governments should develop programs to support and provide incentives for producers, processors, and marketers in entering into new relationships that create profitable supply chains to meet the needs of increasingly sophisticated individual consumers and firms. In the past, governments have played this supportive role successfully in energy, aluminum, taconite, and timber production. The same could be done to support the de-commodification of agricultural production in sparsely populated rural areas. While this approach may be appropriate to all four rural types, the highest priority should be placed on sparsely populated areas because that is where the potential benefits are most needed.

- *Develop and use new technology to overcome remoteness to create infrastructure that expands competitive advantage in sparsely populated and high-poverty areas—Intersections D2 and D4*

The private sector is the major source of new technology and the sector most likely to produce new technologies that, all other things being equal, are most profitable. Because economy of scale is often a critical component in the profitability of new technologies, rural areas, especially areas of high poverty and sparse populations, rarely benefit from such technologies.

As Galston and Baehler suggest, drawing on the work of Jane Jacobs, "a central challenge for U.S. rural development will be to conceptualize, and put into place, new kinds of linkages between metropolitan areas and remote communities. Absent such innovations, the prospects for remote communities without significant natural amenities can only be regarded as bleak" (p. 15). Technology can be one of the key linkages.

Governments regularly provide incentives to change the behavior of business. The United States wants more petroleum production, so the federal government provides tax incentives. States want to promote alternative fuels, so they require agencies to buy ethanol-blended gasoline. To promote the development of commercial airlines, the federal government created incentives by awarding airmail contracts. The development of much of America's rail and highway systems was spurred by government support. Many levels of government want to increase the number of minority and women business owners, so they create targeted purchasing strategies.

Rural communities need technologies that link them to what Jane Jacobs calls "metropolitan engines." State and federal governments should develop tax, risk minimalization, and direct support efforts to provide incentives for for-profit companies to develop and market technologies that create rural competitive advantage. The most immediate examples of this are in the areas of communications and information technologies. Given the strong interest within the Defense Department in similar issues in sparsely populated areas, it might be the lead or partner federal agency. At a state level, North Carolina's Rural Internet Access Authority is a good example of stimulating private and public sector activity.[9]

- *Encourage immigration to rural communities to increase human capital in sparsely populated and high-poverty areas—Intersections A2 and A4*

Most of the economic development studies reviewed for this paper suggest the entrepreneur is a key source of continual striving for improvement. Without improvement and increased capacity, firms and communities fall behind. According to Porter, "Firms will not succeed unless they base their strategy on improvements and innovation, a willingness to compete, and a realistic understanding of their national environment and how to improve it" (p. 30). Much of this innovation and risk taking, this work of the entrepreneur, must come from within the community if the community is to gain the greatest benefit. Governments should strive to encourage such "homegrown" entrepreneurship.

But governments should also consider the important role immigrants can play. If a community is not producing its own entrepreneurs, it can import them. Rather than trying to import prisons, rural communities should strive to import entrepreneurs. Porter points out that immigrants have been a critical source of societally beneficial risk taking. In Switzerland, Britain, and America a significant portion of new enterprises are started by immigrants (p. 114). Landes suggests that when cultures become stagnant, the arrival of enterprising immigrants can help to revitalize the culture (pp. 516–17). He also argues that today the United States has no better chance of stopping immigration from Central and South America than the British could stop colonists from crossing the Appalachians in the mid-1700s (p. 297).

If immigration is going to occur, how do we encourage entrepreneurial immigrants to move to sparsely populated and high-poverty rural areas? State and federal governments should create special immigration and support programs that recruit people to targeted rural areas and then assist them in creating new, successful enterprises. In many ways, this is a repeat of what was done in the 1800s and early 1900s in Western agriculture. It was a very successful approach then. Let's revive it, target it to sparsely populated and high-poverty regions, and focus on entrepreneurs from areas like Central and South America and Asia.

VII. CONCLUSION: WHY INVEST IN RURAL AMERICA?

While Americans are generally more likely to prefer market solutions to government interventions, without public action private decline will continue, often leading to the relocation of those with the most intellectual, financial, and social assets. Therefore, we must change both *why* and *how* we invest in rural America. Government support of development based on cheap commodities and labor is shortsighted and unlikely to produce broad-based public benefits. But changing from the current distribution of benefits will be extremely hard. Rural people must play *the* critical role in deciding future priorities and strategies. But it must be *all* rural people, not just those with the most economic and political influence.

As suggested by Salant and Barkley above, *reciprocity* is fundamental to establishing social contracts. Many rural advocates have forgotten this critical requirement. In answering the question, "Why should the public invest in rural America?" we must be able to identify what nonrural America will get in return. Reciprocity was clear in the Frontier and Storehouse social contracts. Future answers need similar clarity, not tired rhetoric like "we feed the world."

While we want a single, compelling answer to this difficult question, I don't believe that it is possible at this time. Instead, I suggest five possible answers, not in order of importance. Here are five reasons to invest in rural America:

1. We invest in rural America to protect and restore the environment. Rural people and communities are subsidized to increase environmental quality. The challenges with such an approach include, first, whether it can provide adequate income to sustain rural communities, and second, our lack of experience incentivizing environmental restoration.

2. We invest in rural America to produce high-quality, de-commodified food and fiber. There is growing evidence that a portion of Americans are willing to pay more for food and fiber that they see as safer and better for the environment. Instead of subsidizing farmers and loggers to produce cheap, average-quality commodities, provide incentives to produce specialty, branded products. The challenges with this approach include that it is anti-mass culture, works best for communities in the urban periphery, and requires new distribution and marketing systems.

3. We invest in rural America as a laboratory of social innovation. America faces many social problems that are awaiting new, innovative solutions. Given the small size and strong social bonds, rural areas should have advantages in creating possible approaches. Challenges to this answer include rural resistance to change, lack of financial resources focused on social and economic innovation, and class and race divisions.

4. We invest in rural America to produce healthy, well-educated future citizens. This is a continuation of part of the Storehouse social contract. But if significant numbers of rural people are to continue to move to urban areas, they should move as assets, not liabilities. Challenges of this approach are that it assumes child development is an export industry and that it builds rural people, not rural places.

5. We invest in rural America to maintain population distribution and prevent urban overcrowding. Many urban areas are struggling with gridlock and sprawl. If another 15 to 20 million people move to major metropolitan areas, congestion will be out of control. This possible contract is challenged by the fact that many Americans benefit from increased growth and that this is a locational strategy, not a development one.

None of these potential answers is adequate. But they illustrate the approach we must take.

Without new approaches, rural America will continue to exist and it will become increasingly diverse. Poverty and wealth will continue to grow. Agriculture will continue to decline and become more concentrated.

But with a new social contract and appropriate public policy, what could rural America become?

ENDNOTES

[1] The comments in this article are explored only in the context of the United States. Applicability or implications for other nations is not explored or intended.

[2] President Bush's January 21, 2001, inauguration speech is available on the Internet at ***http://www.concordmonitor.com/stories/news/politics/0121bushspeech.shtml***.

[3] Native American civilizations were well established in North America prior to the arrival of Europeans. Most European immigrants saw the existing civilizations as obstacles to be overcome.

[4] These time periods are somewhat arbitrary and the timing of the stages varies significantly, east to west. There is also substantial overlap between the periods.

[5] Personal conversations with Michael E. Porter and Anne Habiby of the Initiative for the Competitive Inner City.

[6] Based on a typology originally articulated in Bender, et al. The Diverse Social and Economic Structure of Nonmetropolitan America. Rural Development Research report No. 49, USDA, Economic Research Service, September, 1985. Even with a typology like this, there must be allowances for significant ecological and cultural variations. Housing programs serving sparsely populated rural areas of Alaska, for example, should have significantly different design standards from those serving sparsely populated parts of Arizona. There can be no perfect conceptualization of rural types. What is critical is that we move from trying to operate from large-scale, undifferentiated norms to using ones that are targeted.

[7] What is strategy? As suggested by Norman Reid and David Sears (p. 3) based on the work of John Bryson, strategy focuses on the long-term, links specific steps to the broader objectives, and, most importantly, requires the application of "cause-and-effect" thinking when deciding short-term actions. Strategy is distinct from "programs, actions, approaches, and techniques." Strategies are the critical, decisional linkage between vision and action. Strategies don't eliminate risk-taking, they focus it.

[8] The land grant was used as a way of creating the "People's University" in 1862 because the federal government's cash resources were strapped by the Civil War but it had a large surplus of land. Today the federal government has a surplus of information and cash.

[9] See ***http://www.ncruralcenter.org/internet/index.html***.

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