

IMPACT OF SERVICES ON RURAL COMMUNITIES

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The American economy is going through deep and irreversible changes. No part of the United States is exempt. Except for the references to job growth and low unemployment rates, this statement about the Northwest could be applied to most regions across America today:

“...a number of structural changes are occurring in the regional economy and labor market that significantly affect people’s job prospects. There is a shift away from manufacturing, with its higher than average wages, and toward retail trade and services, with their lower than average wages. Blue collar jobs are declining and professional/technical jobs requiring post secondary education and training are growing. Part-time and temporary jobs are increasing. And while the region as a whole is experiencing job growth and low unemployment—with employers in some areas reporting difficulty finding skilled workers—many inner-city neighborhoods and rural communities suffer from high rates of unemployment and underemployment. At the same time, public programs that provide people in need with employment, training and social services are being restructured, with greater responsibility given to states and communities.” (Northwest Policy Center, p. 1)

This quote focuses our attention on the changes occurring in the American economy and touches on some of the ramifications of those changes. This paper addresses both the role the service sector plays in this transition, and the affects of the changes on the service sector with particular attention given to how all this plays out in rural America. The first section examines the changing role of the service sector in rural America. The second section focuses on two major forces that will shape that role. The final section addresses some policy issues surrounding the delivery of services in rural areas.

The Role of the Service Sector in Rural America is Changing

The Service Sector. The increasing importance of the service sector in the American economy is striking. Between 1969 and 1994, employment in the service sector of the economy increased from 18 percent to 29 percent of total employment (Table 1). This is based upon a narrow definition of services used by the U.S. Department of Commerce (Table 2). If one broadens that definition to include other service-producing enterprises—government services; finance, insurance and real estate; retail and wholesale trade; and transportation and public utilities—the percentages go from 67 percent of total employment in 1969 to 78 percent in 1994.

Table 1. Distribution of Employment Across Economic Sectors.

R-U Cont. Codes*	Narrow Services		Manufacturing		Broad Services		Goods Production	
	1969	1994	1969	1994	1969	1994	1969	1994
	----- Percent -----							
0	20	33	23	12	70	82	30	18
1	15	25	24	15	59	72	41	28
2	18	29	24	14	66	78	34	22
3	17	26	22	13	66	77	34	23
4	15	23	27	19	60	70	40	30
5	17	25	18	13	68	70	40	30
6	15	21	22	19	55	64	45	36
7	15	22	18	17	58	64	45	36
8	12	20	14	16	51	60	49	40
9	12	20	11	13	52	61	48	39
Total	18	29	23	13	67	78	33	22

* R-U Cont. Codes refer to Rural-Urban Continuum Codes described in Table 4.

Source: Bureau of Economic Analysis.

Table 2. Definitions of Narrow and Broad Services.

Narrow Services	Broad Services
Hotels & Other Lodging Places	Include Narrow Services Plus:
Personal Services	Wholesale Trade
Private Household Services	Retail Trade
Business Services	Finance, Insurance & Real Estate
Auto Repair, Services & Parking	Federal Government-Civilian
Amusement & Recreation Services	Federal Government-Military
Motion Pictures	State Government
Health Services	Local Government
Legal Services	
Education Services	
Social Services	
Museums, Botanical and Zoological Gardens	
Membership Organizations	
Engineering & Management Services	
Miscellaneous Services	

Source: Standard Industrial Classification Manual: 1987.

Over this same period of time, the relative importance of employment in goods-producing industries—agriculture, manufacturing, construction, forestry, fisheries and mining—dropped from 33 percent to 22 percent of total employment. While the number of workers in other goods-producing sectors increased, the absolute number of people employed in agriculture and manufacturing declined (Table 3). The number of people employed in all service-producing sectors of the economy increased.

Table 3. Percent Change in Employment: 1969-1994.

R-U Cont.				
Codes	Broad Services	Production	Narrow Services	Manufacturing
----- Percent -----				
0	80	-7	155	-23
1	152	45	252	29
2	99	12	179	-5
3	94	15	163	2
4	73	8	127	4
5	77	15	131	9
6	70	15	103	28
7	67	14	108	35
8	65	15	127	62
9	51	5	103	57
Total	85	5	156	-8

Source: Bureau of Economic Analysis.

Table 4. Rural-Urban Continuum Codes: 1983 and 1993.

Code	Definition
<i>Metropolitan Counties</i>	
0	Central counties of metropolitan areas of 1 million population or more.
1	Fring counties of metropolitan areas of 1 million population or more.
2	Counties in metropolitan areas of 250 thousand to 1 million population.
3	Counties in metropolitan areas of less than 250 thousand population.
<i>Non-metropolitan Counties</i>	
4	Urban population of 20,000 or more, adjacent to a metropolitan area.
5	Urban population of 20,000 or more, not adjacent to a metropolitan area.
6	Urban population of 2,500 to 19,999, adjacent to a metropolitan area.
7	Urban population of 2,500 to 19,999, not adjacent to a metropolitan area.
8	Completely rural or less than 2,500 urban population, adjacent to a metropolitan area.
9	Completely rural or less than 2,500 urban population, not adjacent to a metropolitan area.

NOTES: Metropolitan status is that announced by the Office of Management and Budget in June 1983 and June 1993, when the current population criteria were first applied to results of the 1980 and 1990 Censuses. Adjacency was determined by physical boundary adjacency and a finding that at least 2 percent of the employed labor force in the non-metropolitan county commuted to metropolitan central counties.

The surprising part of this pattern is that it seems to prevail in all size places. That is, both narrowly and broadly defined services demonstrated significantly greater employment growth than manufacturing, or more broadly defined goods production, between 1969 and 1994 for all groups of counties categorized by size of place and proximity to metropolitan areas.

Not all geographic areas fared equally. Many remote areas in the Great Plains and parts of the Midwest experienced declines in employment and population over the time period. However, the predominant pattern is for metropolitan counties, as well as non-metropolitan counties and counties with and without proximity to a metropolitan area, to exhibit this trend toward increasing relative importance of service-producing sectors and declining relative importance of goods-producing sectors.

Private vs Public Services. Private services account for a larger proportion of employment than public services. However, most policy debates focus on public services for two plausible reasons. First, the demand for such services is measured in public forums rather than in the market place. Second, there is a direct link between policy and the provision of public services. By their sheer size, private services are probably as important, and may be more important, to the well being of rural people than public services. In 1994, employment in public services accounted for 19 percent of all the employment in service-providing sectors of the economy (Table 5). Government employment is relatively more important in smaller places than in larger ones, accounting for 28 percent of service employment in places of 2,500 or less population, and only 16 percent in places of greater than 1 million population. Government employment has shown a dramatic and continuous decline in relative importance within service sector employment for all size places from 1969 to 1994. Thus, the role of the public sector in providing employment is declining relative to the private sector.

Some have argued that service jobs are lower paid and less desirable than goods-producing jobs. There is some truth to the lower pay. On average, jobs in service industries have provided lower annual pay than jobs in goods-producing industries. This is true partly because of a shorter work week and partly because of lower wage rates for jobs with comparable skill levels. This means that someone shifting from a job in the goods-producing sectors to one in the service-producing sectors will need to increase job skill levels in order to receive the same wages. However, the conclusion that service sector jobs are not desirable is not warranted for several reasons:

- The service sector is the part of the economy that is growing the most rapidly. A service sector job is preferable to no job.

- Low wage rates indicate a shortage of jobs relative to the labor supply; certainly not a surplus of service sector jobs.
- While the hourly wage structure for jobs in service-producing sectors is lower than in goods-producing sectors, the structure in the former has been rising while it has been stable or declining in the latter.
- Service-producing sectors have a higher proportion of jobs in high wage, high skill categories while jobs in goods-producing sectors tend to be concentrated in low wage, low skill areas (Power).

Table 5. Government Employment as a Percentage of Service and Total Employment.

R-U Cont. Codes	1969	1980	1990	1994
<i>As a Percentage of Service Employment</i>				
0	23	20	17	16
1	30	26	21	21
2	29	25	21	20
3	31	27	24	23
4	33	29	26	25
5	33	28	27	25
6	29	27	25	24
7	29	26	25	24
8	33	31	29	28
9	34	30	29	28
Total	26	23	20	19
<i>As a Percentage of Employment</i>				
0	16	15	13	13
1	18	16	15	15
2	19	18	16	15
3	20	19	18	18
4	20	18	18	17
5	22	20	20	19
6	16	16	16	16
7	17	16	16	16
8	17	16	16	16
9	17	16	17	17
Total	17	16	15	15

Source: Bureau of Economic Analysis.

A cursory review of the types of businesses listed in the service sectors suggests a substantial mix of high pay and high skill types of employment (Table 2). Business services, medical services and legal services provide good paying and highly skilled jobs.

As our national economy shifts toward service sector jobs, those workers released from manufacturing and other goods-producing jobs may find themselves ill-equipped to take advantage of newly created high wage, high skill jobs without substantial retraining. Those workers who are not retrained will find themselves competing for the lower skilled service sector jobs. Failure to access the retraining and the better paying jobs can occur for a variety of reasons; some having to do with the capacity and inclinations of the displaced workers, and some having to do with the availability and nature of both training and jobs. So, while service jobs have been supporting rural economies, they may not have provided much help for some displaced workers.

Major Forces Impacting the Availability and Form of Services in Rural America

Of all the forces pressing on rural America, two are having a major impact on the availability and form of services—devolution and telecommunications technology. The first directly influences the provision of public services while the second affects both public and private services.

Devolution. Devolution is the shifting of some control of, and budget for, selected federal programs to state and local government. Of course, only selected programs are shifted and law and regulations circumscribe the flexibility afforded state and local governments. The rationale for this change in federal policy is compelling. Where better could one tailor programs to meet clientele needs but at government levels closest to the problems and the affected parties? Coupled with this is the general distrust of the federal government’s ability to effectively administer programs addressing local needs. Unfortunately, devolving a broad spectrum of programs to a single level of government will not likely produce the desired results. Careful evaluation will be needed to determine the appropriate level of government on a program-by-program basis.

One of the primary motivations behind devolution has been the need to bring the federal deficit under control. Devolution represents a shifting of program design and control to the state level accompanied with some budget. The administrative budget has not been part of that transfer, leaving states with the dilemma of taking administrative costs out of program moneys and offering a smaller program, or raising additional funds to administer the programs. This is not an easy choice.

Devolution, to some degree, ignores the question of national interest. The programs in question were initiated at the federal level partly because policy makers identified national interests that superceded state and local interests. There was a belief that the national interests would not be served if these programs were administered at the state and local levels. Have state and local interests changed since placing these programs at the federal level? Are state and local interests now consistent with national interests? Maybe the federal budget pressure has just helped us see these issues more clearly.

Another likely outcome of devolution is a precipitous drop in federal funding similar to what occurred with general revenue sharing. Recall that general revenue sharing was initiated in 1972 and reached its peak in the early 1980s (Fisher). The federal government began providing a significant level of funding for state and local governments. Local governments, in particular, began to depend upon the federal government for as much as 10 percent of their funding. The funding levels then dropped quickly, with Congress terminating the program in 1986. General revenue sharing was terminated because the program was politically untenable. Federal politicians were collecting revenue while state and local politicians were getting the credit for spending it. Devolution is similarly untenable. Federal politicians will not long pay the price for collecting funds that other politicians get the credit for spending.

All this is to say that devolution will have a profound and unsettling impact on the delivery of public services. Will programs be better tailored to meet local needs? Probably not, unless devolution is crafted very carefully. Will the national interest be served across the United States? Probably for some programs but not for others, depending upon whether states and local governments have changed or whether the initial rationale for placing programs at the national level was flawed. Will funding for programs be erratic? Most likely. State and local policy makers must prepare themselves for another roller coaster ride like what happened with general revenue sharing. It is coming (Rural Policy Research Institute, 1995).

The Telecommunications Revolution. While the effects of devolution will impact primarily public services, the telecommunications revolution is impacting both public and private services and almost any other part of our economy and society you want to consider. It will likely influence the location of economic activity as greatly as railroads, the interstate highway system, and rural electrification combined (Rural Policy Research Institute, September 1996, November 1996 and May 1997).

Telecommunications has made the virtual office a reality, opened world markets to remote locations and vice versa, and has revolutionized the nature and availability of information. The capacity to deliver many services in isolated areas has been greatly increased. However, for access to be a reality, areas must be connected. Those areas that do not connect will be more isolated than they were before the technology became available.

To what extent will rural areas connect and what services can be delivered? Physical infrastructure is lacking for some rural areas. In many locations, the telecommunication lines are not of adequate quality or do not have the capacity for effective connection. The new satellite technology may bypass some of those limitations, but lack of physical infrastructure will continue to limit access for some areas. The U.S. Telecommunications Act of 1996 has provided for “universal service” to schools, libraries and health care facilities at discounted rates. Coalitions are encouraged but including non-eligible entities like businesses is difficult. Rural areas have the option of choosing the level of service desired. If a minimum level is chosen, this could leave out rural businesses and some government entities. The potential use of the system would have been greatly enhanced had the law facilitated government and business participation in the coalitions.

However, these challenges are probably not going to be the limiting factors for full participation of rural areas in the telecommunications revolution. The primary impediment will likely be cultural. While urban areas are already fully involved, many people in smaller places are not inclined to try. One can only speculate as to the extent and location of cultural resistance to the new technology. The new technology will result in more effective delivery of public and private services in selected rural areas, and access for private services to world markets. However, those areas that do not connect will receive less services, either private or public, and will experience increased isolation.

Fundamental Policy Questions

Before policy alternatives can be effectively crafted and evaluated, one must answer the basic question, “Policy for what?” Do we want a safety net under people or places (Bolton, 1995 and 1992)? We seem to be stuck in the middle of a transition. There is dissatisfaction with entitlement programs that place a long-term safety net under people, and an increasing national interest in community or place. However, we are not very close to sorting out the mix of place versus people policy. One sticking point may be the difficult issue of triage. Which places do we help and which do we let die (Rural Policy Research Institute, March 1997)?

Do we want policies that generate development, help communities cope with structural changes in their economies, or address poverty? The present Enterprise Community/Empowerment Zone (EC/EZ) program of the Clinton administration is targeted toward multi-community areas that rank high on some measures of poverty, yet the program provides for some infrastructure creation. Thus, the criteria used to target the program are focused on the individual while the benefits of the program are focused on places. Targeting by using measures of poverty may not result in the best development or place policy and vice versa.

Historically, substantial federal resources have been focused on rural areas. However, there is some indication that mix of spending may have adversely affected the productivity of rural areas relative to urban areas. A 1980 Economic Research Service study indicated that the mix of federal dollars going into urban areas favored investment-type spending over transfer payments considerably more than was true for rural areas (Reid and Whitehead). This work was later updated for the Great Plains region of the United States with the same results (Kusmin). To the degree that this is true, some of the lower productivity exhibited by rural areas may be the inadvertent result of federal rural policy. Careful attention is needed to craft a rural policy that produces the desired results, whatever they may be.

The national rural policy area is not getting any clearer. While agriculture, forestry and mining interests have historically dominated the rural agenda, “new” interests are having a profound effect on the policy debates—these include environmental and recreational interests, groups interested in animal rights and those concerned with endangered species. These interests cannot be described as new and they are coming from both residents and nonresidents of rural areas. This proliferation has broadened the debate from people versus place to include animals and the environment. The fundamental questions have not become easier, but answers are needed to facilitate the design and evaluation of policy alternatives.

Should policy focus on people or places? How should we handle the triage question? How we answer these questions is important but that they *be* answered is even more important. Then, we can debate alternatives focused on service sector development versus current federal, state and local efforts that often focus on reversing global trends in goods-producing industries that traditionally supported rural America. The service sectors, particularly private service sectors, are increasing in importance in rural America. Policies that promote these sectors should have substantial development promise.

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