

ELEMENTS OF CONTEMPORARY RURAL POLICY

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The recent decline in the relative economic well-being of the residents of rural America is well documented (U.S. Department of Agriculture; Wilkinson; U.S. Congress). Although much better off than thirty years ago, rural America's fortunes have taken a turn for the worse in the 1980s. Rural employment has grown at a rate less than one third that of urban areas. Unemployment rates, once higher in urban areas, are now lower than those in rural areas. Non-metropolitan workers are also more likely than urban workers to be at jobs providing marginal earnings. The metropolitan poverty rate, already lower than that in nonmetropolitan areas, has fallen during the recovery of the early 1980s. Not so that of nonmetro areas. The gap in living standards between rural and urban America, which had been narrowing in the 1960s and 70s, is growing.

The decline in rural well-being might not have been noted so soon were it not for the sharp drop in many farm incomes. The farm crisis drew the spotlight of public attention to the rural condition. But what became quickly evident was the fact that rural America is no longer strictly dependent on income from farming and other natural-resource-based industries, but has been transformed to a much more complex economy. Much like urban America, rural areas are now dependent on employment in manufacturing construction, services and government and income from transfer payments, dividends, interest and rents. In the nonmetropolitan counties of the United States less than one in six of all jobs are in farming (including farm operators) and one out of three are agriculturally related (including farming). One in five of all people working in nonmetropolitan counties is employed (including the self-employed) in manufacturing. About one in seven in trade. About 15 percent are employed in services (primarily in business and health services) and another 15 percent in government. Twenty-one percent of U.S. nonmetropolitan counties are identified as retirement centers and thus heavily dependent on income from dividends, interest, rents and social security (U.S. Congress; Bender et al.). Close inspection reveals that rural areas have suffered severe losses in many of these sectors and

are recovering more slowly than urban areas. It is now evident that rural America's problems will not be resolved through improved farm income alone.

A number of reasons are offered for the fall in the relative economic status of rural America (U.S. Department of Agriculture; Somersan; U.S. Congress).

- Through time, employment in the United States shifted from agricultural dominance to manufacturing and more recently to the services sector. In the 1960s and 70s, rural areas were attractive locations for manufacturing firms seeking low cost labor. But in the 1980s even lower cost labor was found off-shore. Unfavorable international money exchange rates made competition in the global economy increasingly difficult. Sharp job losses in farming, forestry, mining and manufacturing were felt most harshly in rural areas. In the current recovery, the total U.S. output of many of these industries is back to or above pre-recession levels, but in most cases with much less labor than before. Because of its greater relative dependence on goods-producing sectors, employment growth in rural areas has lagged that in urban areas in the recovery period.

- Services-producing industries have provided most of the employment growth in the United States in recent years (Miller and Bluestone). During the 1969 to 1976 period, services employment grew faster in nonmetropolitan areas than in metropolitan areas. In sharp contrast, during the 1976 to 1984 period, the metropolitan services employment growth rate was much higher. A large share of the services-producing industries employment in rural areas has been linked to faltering goods-producing industries. The economic future of rural areas is heavily dependent on their ability to compete with urban areas for growth in those services-producing industries not so closely tied to the goods-producing sectors.

- Federal spending in the form of direct payments, procurement contracts, grants, loans and employment has an increasingly important impact on state and local economies. In 1985, federal spending in metropolitan counties was 22 percent higher than in nonmetropolitan counties (Reid and Dubin). Although nonmetropolitan counties contain one fourth of the nation's population, they receive less than one fifth of the federal expenditures. It is important to note, however, that on the basis of their tax burdens, rural areas received 12 percent more than their urban counterparts. (Agriculture and natural resources expenditures accounted for only 5.5 percent of total federal expenditures in the nonmetropolitan counties.) The critical question has to do with the spending mix. Two-thirds of nonmetropolitan area funds come from income security sources such as Social Security and Medicare. In contrast, half the federal expenditures in metropolitan areas are in programs that may provide a stronger long-term developmental stimulus.

In spite of the fact that the general level of economic well-being is declining in rural America, some specific communities are doing quite well. The regions most severely affected by income and employment reduction are those that are relatively remote and heavily dependent on farming, forestry, manufacturing and mining. The rural communities most likely to be doing well are those near urban centers with new branches of service-producing firms or high-technology manufacturers. Or, they may be at the center of an immigration of retirees, near a growing suburb, close to the site of a mineral exploitation or some other expanding industry.

In essence, there are two rural Americas. Rural communities within easy commuting distance of cities of 15,000 to 20,000 people can expect to attract many of the same business types as their urban neighbors. Cities of this size seem to offer sufficient conditions to provide a base for the formation and expansion of high growth industries. Remote regions are the other rural America. Here job and income growth opportunities are more limited and economic conditions more severe.

Need For Rural Development Policy

It could be argued that the recent decline in the relative economic well-being of rural areas is an appropriate response to long-run changes in the structure of the U.S. and world economies: "Small towns are going to die, why not let them?" The argument continues that rural areas are simply less competitive in the emerging economic scheme of things and thus declines in their economic activity and population are simply signs of greater long-run efficiency. There may be serious short-run problems associated with economic dislocation but in the long run everyone will gain greater wealth. If the argument holds, then any rural development policy other than one focused on easing the transition of resources (both human and capital) from rural to urban areas would seem unwarranted.

Some economists have argued that this simplistic perspective fails to account for a number of economic variables that might justify further state and federal expenditures in rural areas.

- For generations, rural areas have been investing, with little remuneration, in the development of human resources that are exported to urban areas. Young people raised and educated on farms and in small towns gain employment in cities thus exploiting the investment of their rural families and neighbors. Some compensation is provided through state and federal aids to education and health care, but a more careful accounting might justify greater expenditures.

- There are large sunk costs in private and public infrastructures in rural areas. There are uncounted dollars invested in private homes, stores, offices, manufacturing plants, telecommunications,

public streets, roads, schools, water and sewer systems and airports and health care facilities, not to mention the investment in social and political institutions. The replacement of abandoned physical structures and human institutions necessitated by migration from rural to urban areas would come at a very high short-run cost. In the long run, replacement and, at some point, heavy maintenance of capital resources in noncompetitive locations might be difficult to justify from an economic standpoint.

- No serious effort has been made to account for the externalities associated with rural to urban migrations. Are there added costs of crime, delinquency, drug dependency, mental stress, educational deterioration and anomie resulting from the increased concentration of human population? Or are these costs more than compensated for by increased production efficiency and easier access to higher education and other cultural activities? The truth is, we don't know. Public expenditures focused on encouraging people to stay in rural areas may or may not be justified on the basis of externalities.

- Rural regions continue to be critical locations for the production of specific goods and services. Farming, forestry and mining will take place where essential natural resources are available. Tourism, an increasing source of employment, occurs in places of natural beauty. Military establishments, waste disposal sights, some sensitive manufacturing establishments and other facilities often require remote rural areas. A minimum level of public and private infrastructure is necessary to support the people employed in these industries. Public policy encouraging other firms to locate in these regions might also be justified as a mechanism for reducing per capita costs of the fundamental infrastructure.

In any event, economic efficiency objectives are only one aspect of realistic policy making. Efficiency objectives must be set next to considerations of equity, ethics, environment, aesthetics, culture and security. Thus, the question is not just which policies will generate higher incomes and greater wealth, but how will the benefits be distributed. Policy decisions are made, not simply on the basis of how to produce goods and services more cheaply, but also with regard to issues of animal rights and business ethics. Because of environmental considerations, the public often imposes restrictions that seem contrary to short-run private productivity interests. The most efficient location for the village dump may be in the center of town, but it is placed elsewhere for aesthetic and health reasons. The debate regarding the family farm vs. large scale commercial producers is not just over which system will produce the lowest cost food in the long run, but also involves the kind of rural landscape (human and natural resource) desired as well as serious considerations of respect for cultural heritage. The dispersion of fundamental services and goods production is viewed by some as necessary to long-run security.

In other words, there may be a number of legitimate reasons for a rural development policy. When all costs are considered and proper public compensation provided, rural areas may be competitive production locations. Public expenditures might be provided to rural and some urban areas as a mechanism for more equitable income distribution. Cultural, aesthetic, environmental and other considerations may serve as stimuli to further public investments in rural areas.

Building A Contemporary Policy

In an economy dominated by private decision making, national, state and local government and some private institutions influence the distribution of employment, income and wealth by creating a specific development environment. Tools such as taxation, regulations, special incentives, direct assistance and expenditures are the instruments used in addressing policy objectives. In the end, however, primary responsibility for decision- and action-taking that determines the economic well-being of most communities lies in the hands of the private sector.

Rural communities that are close to urban settings will not always experience expansions in income and employment simply because of proximity. Those states and localities that have created nurturing environments appropriate to their unique conditions are most apt to generate increased economic activity. Small communities with limited resources and in remote rural areas must make even more judicious policy choices. No single action or combination of actions will guarantee more jobs and income. The absence of effort on a wide front is, however, likely to assure economic decline. To be effective, rural development policies must be comprehensive yet unique to specific conditions.

All too often, policy makers advocate relatively simple, single programs to generate more jobs and income. Perhaps the most important initiative that could be undertaken to help rural America through its economic dilemma would be to expand the education and technical assistance in economic development provided units of government, business people and other community leaders. A great deal of energy is wasted in fruitless effort simply because these people are not well informed about the strategies likely to produce the greatest payoff, considering their unique goals and resource conditions.

Implications To Agriculture

The maintenance of a healthy agricultural economy remains a critical part of any comprehensive effort aimed at rural development in most of the United States. Rural America will draw an important part of its economic lifeblood from the sale of food and fiber within

the United States and to other world markets for some time to come. Increased competitive pressures from producers in other parts of the world will make improvement in the efficiency of American agriculture, both on and off the farm, imperative.

Clearly, there is a continuing need for the development and adoption of general wealth-improving production, management and marketing technology. But, should agricultural leaders on farms, in universities and in state and federal agencies commit their total energy and resources to efficiency objectives, the results are apt to prove disastrous. Historic increases in agricultural production efficiency have usually led to expanded total output, which in turn has led to domestic surpluses, thus to heavy public subsidy and a consequent overinvestment in both human and physical capital. At the same time farm families are displaced, homes and other property sold or lost and agribusinesses closed. Efforts focused solely on agricultural efficiency are likely to exacerbate the problem of agricultural surpluses and their attendant difficulties.

The major benefactors of this long-term structural adjustment have been the public at large who, by acquiring their food at a lower real cost, are able to acquire other goods and services with the savings. Nonetheless, the combination of increased public expenditure for greater agricultural production, higher costs for public purchasing of surplus commodities, rapid declines in the number of family farms and decreasing power of farm block votes is one which will surely produce even greater political problems in the future. The current reduction in national support for agricultural extension and research is perhaps a sign of things to come. Farm policy focused on assuring an adequate supply of food and fiber to the United States and other available world markets by rewarding increased production efficiency and large producers is by itself not apt to receive continued widespread public support.

A number of other farm policy initiatives deserve serious consideration. More research and extension attention could be focused on technology and management that increases the returns to the factors of production without increasing total output. This includes serious consideration of agricultural processing and marketing efficiency. If these efforts were successful, farm incomes would be increased without expanded expenditures on commodity programs. New non-food applications might be sought for the use of rural resources no longer needed to produce food products. Gasoline substitutes and biodegradable plastics are primary examples. Effort to "beggar" others by creating new food substitutes or through greater local value-added campaigns may prove useful in some cases, but is likely to be of little widespread benefit.

Substitutes for products imported into the United States that might be produced domestically at some comparative advantage may make a more positive contribution to the long-run economic well-

being of rural America than a wall of import restrictions. International export opportunities might be found for niche crops such as ginseng.

The economic and environmental impacts of reduced input agriculture undoubtedly deserve more serious consideration. There may be some advantages in diversified agriculture worth reconsidering. In any event, more reasoned analysis and planning regarding necessary long-run structural adjustments both on and off the farm deserve greater attention in policy development.

Nonfarm Rural Development Policy

The survival of farm families and people in more remote rural communities depends on the expansion of nonfarm income and employment opportunities. Those rural communities in which economic growth can be stimulated from sources such as tourism, manufacturing, retirement populations or services-producing industries, may provide ample opportunities for those who need additional family income from part-time employment or are leaving farming altogether. Those which cannot will continue their decline. (The same can be said for those which are dependent on forestry or mining). The future economic well-being of most of rural America is more heavily dependent on its ability to generate increased nonfarm income and employment than on its success in maintaining an effective farm policy, though both are important.

The primary question in this matter is not what can be done to improve rural nonfarm employment and income, but who will take the leadership for policy development and execution.

It is generally agreed that five strategies are possible in building a comprehensive rural nonfarm business development policy:

1. Improve the efficiency of existing business through business management education, job training and business visitation to identify growth barriers.

2. Attract new basic employers by the creation of industrial, office or commercial sites and by provision of labor information or capital assistance.

3. Encourage business formation through individual business counseling and the formation of high risk equity and debt capital pools.

4. Capture more local dollars using consumer surveys to identify market potential and tourism development and promotion.

5. Acquire resources from broader governments by developing services focused on the elderly and mechanisms for monitoring programs with funding potential.

There is also general agreement that a need exists for policies to ease the transition of some resources (human and capital) from their current use in farming, forestry, mining, durable goods manufacturing and related businesses to more productive uses. There is a need for improved access to job counseling and training, transition income support programs especially for those leaving self-employment, early recognition of those in economic trouble and psychological and human support services for those experiencing stress. The human resource potential of all rural residents must be maximized through education and health care.

Some combination of these policies is best in each community. It is the local leadership's responsibility to define specific rural development policy objectives, to make the choices and take those actions that offer the best hope for meeting their goals.

State and national responses to nonfarm rural development concerns are confusing at best. Some state Cooperative Extension Services have made major commitments to educating local leaders regarding community economic development options. Others in the midst of the farm crisis chose to concentrate almost exclusively on educational programs for commercial farmers. Agricultural colleges in some states have widened their responsibility to include a strong commitment to nonfarm rural development while others have declared their intent to serve only commercial farmers and agribusiness and leave the other concerns of rural America to someone else.

The U.S. Department of Agriculture (USDA) offers equally conflicting signals. Its Economic Research Service has played a major role in illuminating the decline in rural economic well-being and the importance of nonfarm sources of income. At the same time, USDA leaders are declaring the department needs no more programs or resources for rural development, although only a small portion of its funds are committed to anything resembling this concern. The USDA is placing great emphasis on a national information clearinghouse and one-time community visits by teams of experts. Community development educators are quick to point out that neither approach is apt to be very helpful at the community level.

A number of other federal agencies, including the Economic Development Administration, Small Business Administration, and the Department of Education and Transportation, make some commitment to rural areas. None has a well-defined commitment to rural America. There is little coordination of effort and no direct statement of federal rural development policy intent.

There is increasing concern regarding the need for clearer direction. Among the options being discussed are a rural development unit within an existing department such as Agriculture or Commerce, a stand-alone administrative unit such as the Small Business

Administration, a new Department of Urban and Rural Economic Development and/or a special committee within the President's cabinet. There is no serious discussion of significant additional funding.

State governments are also addressing the matter of assigning responsibility for rural development policy. Some have created special councils or commissions. Others have assigned direct responsibility within the offices of the governor. Rural development policy has been of major interest to the National Governors' Association, the Council of State Government and similar organizations (Reid and Dubin; Hackett and McLemore). Generally, states are moving at a much faster pace in outlying rural development policy and providing some financial support.

Conclusion

To be effective, rural economic development policies must be rationalized at all political levels—that is, national, state and local policies should not be at cross purposes. Some objectives can be attacked at the local level. Others can be addressed more effectively at state and national levels. For example, local government units can improve access to job counseling and training and provide some psychological and human and support services, but state and national governments will probably have to carry the major burden for providing temporary income assistance in times of economic stress. It is important that local, state and national policies be complementary and supportive rather than contradictory and competitive.

Public policies that pit producers of one product against another (i.e. cranberries vs. mint as a condiment for lamb) or one region against another (e.g. Southern milk producers vs. Midwestern milk producers) add little to everyone's net benefit. Care should be taken not to suggest general solutions from efforts that can promise assistance to only a few (e.g. fireplace logs from oat straw). This is not to discourage improvements in the efficiency of existing firms, new uses for existing products, research on new products and new markets that offer hope of improved economic well-being throughout the United States. There are important roles for national, state and local leaders in policy development. Each is responsible for establishing rural development policy that maximizes the economic prospects of specific states and localities yet their efforts should remain consistent with general national policy objectives.

Today's stresses in rural America are testing everyone's capacity to be creative. If all concerned choose to be intransigent, arguing for the preservation of the status quo, or clinging to old objectives and familiar approaches, then time and change will pass them by. If, on the other hand, they accept the challenge of changing times, establishing new, more relevant policies and programs, rural America's future is bright.

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