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POLICY CONSIDERATIONS FOR URBAN-RURAL BALANCE

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Mr. Chairman: I appreciate the opportunity of testifying today on policy considerations for urban-rural balance. While I lack any of the preceding testimony, I would guess that somewhere along the way a definition was offered to the effect that urban-rural balance denotes some sort of an easy, comfortable relationship between man, space and resources. For our purposes today, however, I prefer to define urban-rural balance as equal access to opportunity -- jobs, services, and amenities -- for all Minnesotans.

In the Appendix to this statement I refer to a series of five reports that bear directly upon the topic today. These reports are, specifically:

1. The People Left Behind, by the President's National Advisory Commission on Rural Poverty;
2. Urban-Rural America: Policies for Future Growth, by the Advisory Commission on Intergovernmental Relations;
3. Building the American City, by the National Commission on Urban Problems;

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4. Hearings on Population Trends of the Ad-Hoc Subcommittee on Urban Growth of the Committee on Banking and Currency, U.S. House of Representatives;
5. The New City, by the National Committee on Urban Growth and Policy.

Emerging from the five reports, and from numerous other conferences and hearings of the past two years that also have focused on problems of urban-rural balance, is the main thrust of my testimony today, namely, that we must improve access to opportunity for the people of nonmetropolitan areas as well as those living in metropolitan areas if we are to achieve an urban-rural balance.

#### Policy Approaches

State intervention in urban-rural development occurs in a countless number of ways. The two I wish to focus upon are public finances and public services. We focus upon these two areas of public intervention within the framework of an emerging regional settlement system in the Upper Midwest.

Of all the Upper Midwest states, Minnesota clearly holds a dominant position -- economically, technologically, culturally, politically. And the seven-county Twin Cities metropolitan core area is the undisputed center of the multi-state region.

We have identified in the Twin Cities core area the principle high-order service center of the region. The region itself is becoming an increasingly self-sufficient economic entity, depending less upon external trade and more upon internal linkages among its component

parts. Nonetheless, the region faces a growing threat to its well being from the social and economic imbalances that exist between its core area and periphery.

What are the implications of the center-periphery disparities in the Upper Midwest (which is roughly equivalent to the Ninth Federal Reserve District) for urban-rural balance in Minnesota? One obvious implication is that this State, if it so chooses, can influence the growth and decline of the entire Upper Midwest by its differential treatment of the metropolitan core area vis-a-vis outstate areas.

We have already identified the nerve center of the Upper Midwest. We can easily trace the circulatory system, too, by identifying the transportation and communication networks that link the principal urban centers of the state into a viable regional economy.

Geographers and demographers have mapped the migration and commuting patterns of the people of Minnesota. We know, for example, that the principal urban places of roughly 10,000 population or more offer jobs and services that draw the residents of the surrounding area extending as far as an hour's drive from the center. Indeed, the extended commuting areas are primary bases for delineating the 11 Economic Regions of the State.

The 11 Economic Regions are important elements in a state policy for urban-rural balance. Implementation of the regional concept makes possible the decentralization of high-order social services to the largest urban centers outside the metropolitan core area.

Many social services have shifted from the small town to the larger central place and eventually to the metropolitan core area simply because

those who provided the services preferred to live in the larger city or, alternatively, they found that a specialized service required a large population to support it. However, for many services the economies of urban agglomeration have been exhausted in the seven-county metropolitan area; instead, diseconomies of urban agglomeration are adding to the costs of doing business. The time has come, therefore, to sort out the functions of the large metropolitan center and to identify those functions that can be dispersed to smaller cities which are still large enough, however, to support these functions as well as bring them closer to more people than is possible in the core area.

Practically every one of the 10 Economic Regions outside the metropolitan core area has an urban place large enough to support many of the services and activities that have drifted to the Twin Cities. Within each of the 10 Economic Regions are smaller urban places where still lower-order services and activities can relocate, linked, however, in a much more effective way than in the past to the high-order services and activities concentrated in the core area.

To achieve a systematic decentralization of high-order services, and access to these services, both state and local governments must work together towards the common goal of improving the delivery of public services. Such a goal is achieved by realizing the advantage of the economies of size on the one hand, and on the other retaining the values inherent in local control and local access.

What stands out in the outlining of an Upper Midwest settlement system is the importance of linkages between service centers of varying

size. What is implied, too, is a strategy of focused decentralization, coupled with a strategy of local mergers. Focused decentralization means the deliberate encouragement of business and household relocation from the core area, where further growth and development is extremely costly, to outlying urban centers that are large enough to attract the new businesses and households by having attained the minimal population levels for self-sustaining growth. Local mergers means, on the other hand, the effective working out of the inter-community and inter-county ties forged over many years of cooperative efforts in a variety of organizational ventures, ranging all the way from resource conservation and development projects to concentrated employment programs and area vocational schools.

When people get together in the functional community, which is really several individual communities that are now working together, they begin to realize that the migration of young people from rural areas to big cities will not be stopped until rural areas can offer a range of choice in employment, education, consumption, recreation and cultural enjoyment that compares favorably with choices available in large metropolitan areas. But to provide these choices, cooperation on a functional community basis and, in some cases, across functional communities on an area-wide basis, is essential.

After all, the problems of one functional community are very much like the problems of another. Clearly, area-wide approaches to the management and financing of essential social services are far from a threat to local institutions; rather, these approaches make possible

extension of the idea of citizen participation and involvement in the affairs of government, especially in the provision of essential social services such as health care, education, welfare, housing and transportation, which are the concern of all communities in an area.

Area implications of the settlement alternatives spelled out thus far are illustrated by population projections for southeast Minnesota for the period 1970 to 1985 (table 1). While the projected 1985 state-level population remains the same in each of the three settlement alternatives, the projected seven-county metropolitan core area population ranges from an 18-percent increase in the focused decentralization alternative to a 36-percent increase in the metropolitan concentration alternative (which assumes continuation of historic trends in rural-to-urban migration in Minnesota).

Given the projected increases in metropolitan core area population, southeast Minnesota (i.e., Minnesota Economic Region 10) population would range from a decline of one percent in the metropolitan concentration alternative to an increase of 18 percent in the combined focused decentralization and local mergers alternatives. Because each of the settlement alternatives would have a differential impact upon the central county versus peripheral counties in the Rochester economic region, the projected population changes for the Austin-Albert Lea functional community would range from a decline of 10 percent in the metropolitan concentration alternative to an increase of 15 percent in the combined focused decentralization and local mergers alternative. Implicit in each of the alternative population projections is an area economic base



Table 1. Illustrative ratios of projected 1985 to estimated 1970 population under alternative settlement assumptions for Rochester economic area and Albert Lea-Austin subarea. 1/

Settlement Alternative	Rochester Area			Twin Cities Metro- politan Area
	Total area	Core County (Olmstead)	Albert Lea-Austin (Freeborn-Mower)	
Metropolitan concentration	0.99	1.17	0.90	1.36
Focused decentralization	1.18	1.36	1.13	1.18
Local mergers (A) <u>2/</u>	1.09	1.30	1.03	1.29
(B) <u>3/</u>	1.18	1.30	1.15	1.18

1/ Based on pre-1970 census data in Minnesota Population Data Book, Vital Statistics Division, Minnesota State Department of Health, St. Paul, December 1968.

2/ Without focused decentralization (federal-state) policy.

3/ With focused decentralization (federal-state) policy.

sufficiently large to provide a total number of jobs that is consistent with the projected population level.

Because the alternatives of focused decentralization and local mergers would result in improved access to economic and social opportunities in the core county of a multi-county planning area, many families who otherwise would move to the metropolitan core area instead will seek employment in their present area. Local economic growth and an expanded population base thus would support a wide range of jobs and skills and a wide range of demands for technically trained and educated people.

#### State Policies

Given a framework for viewing urban-rural balance in a policy context, we can look, next, at state policies for urban-rural balance. We're interested in improving access to opportunity of all sorts, but we're interested, also, in reducing excessive tax burdens and inequities in tax laws. Because we are sensitive to the increasing pressures of metropolitan life that are translated into rapidly rising tax burdens for property owners and residents, we have another reason for posing alternative urban-rural settlement futures and evaluating the implications of each of these futures for taxpayers in both urban and rural areas.

We refer, first, to the growing body of knowledge that points to a widening gap between the total costs of producing goods and services in the big cities and the actual market prices at which these goods

and services are sold. For example, the average worker in the metropolitan area travels on an intra-urban road network that costs many times more per mile of road or per mile of use than a comparable road system in outstate Minnesota. Coupled with a high initial construction and use cost is greater-than-average travel per worker because of greater-than-average distance from place of residence to place of work in the metropolitan area. Yet, all of the road and related time costs are borne by the worker as a taxpayer and consumer of personal transportation services rather than as a consumer of the products produced by the factory or service establishment.

If the appropriate share of full private and social costs incurred in producing the goods and services were added to the market price, then many of us would be spending our money differently than we now do. Also, many businesses would seek investment opportunities elsewhere, not only in other areas of business enterprise, but in other areas of business location, including the smaller metropolitan centers and even smaller satellite cities cited earlier (and in Appendix).

Present tax structures also create inequities between the metropolitan core area and the periphery. In a region where much of the metropolitan growth depends upon rural-to-urban migration, and where much of the investment in the education of young people who migrate to metropolitan areas is supported by local property taxes, the declining parts of the region help finance the rapidly growing parts of the region. Indeed, local investment in the education of young people is perhaps no different than local investment in a manufacturing enterprise that is suddenly moved to another area once it is ready to

produce and to pay wages and salaries. In both cases, local governments lose a future income source without compensation.

Taxpayers of declining areas of Minnesota actually suffer a double inequity, first, by supporting local institutions that invest in youth who leave the area and, second, by paying state taxes to support the additional local expenses associated with the additional growth of already-affluent suburbs of the metropolitan core area. Certainly, suburban residents complain about high taxes, but the complaints would be even greater if these residents paid the full private and social costs of metropolitan population growth.

The tax system intervenes in the settlement process in still another way through the tax on wealth where the wealth is not an accurate indicator of income-producing capabilities. Moreover, practices used in assessing wealth of different forms in different geographical areas depart substantially from market values. Again, peripheral areas lose to the core area and, again, state and local governments intervene in behalf of metropolitan concentration rather than some other settlement alternative.

Even to neutralize public finances in the settlement process would be a step forward. What is recommended by the study commissions and committees cited earlier, however, is use of public finances to achieve dispersion of population and industry rather than their concentration.

Lack of essential social services is recognized as another key factor in accounting for differential rates of economic development between the core area and peripheral areas of the Upper Midwest. Business and industry seeking new

sites for expansion are reluctant to move outside the core area because of the concerns expressed by their staff that housing is inadequate, that medical and health care services are unavailable, and that public education poorly prepares children for urban life. Potential difficulties in retaining a skilled labor force, coupled with less rapid growth in local markets and longer lines of communication to retain control of investments and to manage operations effectively, create enough uncertainties to discourage widespread relocation and expansion of existing businesses and industries from the metropolitan core area to peripheral areas.

Improving the quantity and quality of education and health services in potential growth centers of the Upper Midwest that are large enough now to attract new business and industry is an essential first step in achieving a more favorable distribution of population. Certainly every child does not have access to the same high quality of public education in Minnesota today. To achieve parity in educational quality between the core area and peripheral areas, however, salary and other incentives may be necessary to attract the most capable teachers into areas needing them most.

Local support of area vocational and technical schools has been enthusiastic in some areas because of the critical upgrading functions performed by these schools in behalf of the local labor force and, also, because of the attraction of growing pools of skilled labor for industry seeking new sites outside the core area. Because local expenditures for manpower development and training have potential payoffs

in new jobs and payrolls, local taxpayers are more readily convinced of the need to increase these sorts of educational expenditures than, perhaps, even expenditures for primary and secondary education. Moreover, state support of non-resident students in the vocational schools and technical institutes provides an additional incentive for their local support.

Hampering the full development of a statewide-system of vocational schools and technical institutes as a means of encouraging business and industrial expansion outside the Twin Cities Metropolitan Area is the dependence upon local financing. Many local students will leave the local school district, thus carrying with them the benefits of an educational investment provided through the generosity of local taxpayers, an investment, certainly, that makes possible not only attainment of one's individual potentials but, also, contribution to the wealth and income of the State and Nation. To achieve a more equitable financing of public education in outstate areas, a larger share of state support of local education of all sorts is essential.

Dispersion of population and industry is hampered, also, by lack of medical and health care services outside the core area. Maintenance of minimal medical and health care facilities in cities of less than 10,000 population is becoming increasingly difficult, while in cities of more than 10,000 population the costs of providing specialized services is increasing rapidly. Needed badly is a rationalization of the entire medical and health care system so that the quantity of services can be expanded in close proximity to the user of these services, while

the quality of services can be supported on a more extensive geographical scale than heretofore possible. Envisioned, therefore, is an area-wide system of hospitals and clinics, starting with the rural hospitals of a functional community (of several municipalities) that cooperatively supports a minimal health care complex and that, along with similar functional communities elsewhere in the multi-county service area, support a specialized area-wide medical and health care complex.

Still another consideration in achieving an urban-rural balance is the comprehensive regional planning process. Inasmuch as business and industrial activities in the Twin Cities Metropolitan Area relate to the entire Upper Midwest, the regional economic community is not effectively constrained by state boundaries. Politically, too, the Upper Midwest is a functional development region because of its long history of interstate cooperation in achieving common economic and political goals. In addition, the Ninth Federal Reserve District provides an administrative framework within which economic and perhaps even political considerations can be reconciled in the integration of the core area and peripheral areas into<sup>a</sup> regional economic community.

Unfortunately, a growing information imbalance between the core area and peripheral areas still threatens the viability of the total regional system, which is highly dependent upon strong linkages between core area and peripheral area activities. Reliable information is badly needed now on all sorts of private investment opportunities outside the core area that would encourage business and industrial expansion into urban centers with the highest development potentials.

Because many of the urban centers of the Upper Midwest lie outside the State of Minnesota, inter-state and federal-state cooperation is essential in achieving an improvement in the quality and quantity of information on private investment opportunities just outside the core area. It is here that the Ninth Federal Reserve District, or some variant of the District concept, becomes important in bringing together professional and financial resources for promoting economic development and planning on a multi-state, regional scale.

#### Summary and Conclusions

Because an urban-rural balance denotes some sort of easy and comfortable relationship between man, space and resources, the question of large-scale settlement design in the public interest becomes a prime policy consideration. No longer is extrapolation of historic trends in population and industrial concentration acceptable, nor do we accept the notion that there is something wrong with public intervention in the settlement process. People are forced, as well as attracted, into moving from small towns to the big city, not simply as the result of free choice and the play of free market forces, but as a result, also, of present patterns of public intervention.

Following the thrust of the reports of several distinguished panels of citizens and professional people working on problems of urban and rural development, a series of policy considerations has been outlined.

First, formulation of a framework for estimating and evaluating regional settlement alternatives in the context of a multi-state regional system of area development districts and neighborhood service centers.



Second, improvement of public financing systems by removing certain serious inequities in the assessment of taxes between metropolitan and nonmetropolitan areas and in the recovery of the social costs of private enterprise in densely populated metropolitan core areas.

Third, improvement of public service systems, particularly education, health, housing and transportation, to greatly facilitate opportunity access for all residents of a region, particularly those outside metropolitan core areas.

Fourth, implementation of new organizational structures for inter-state and inter-community cooperation in economic development efforts at both the regional and the area levels of public planning.

Recent efforts in the regionalization of state services are examples of the sorts of steps that are essential for achieving an urban-rural balance that will enhance the productivity of human effort in all parts of Minnesota and that will improve access to opportunity for all residents, whether they be rural or urban, small town or big city. Envisioned, therefore, is the forging of new regional and area linkages that will extend the concept of community from the single municipality or county to the multi-county environmental planning area and, eventually, to the multi-state development region. Only in these ways can we begin to achieve equal access to opportunity for all people, which is the essence of urban-rural balance.

## Appendix

We mention briefly a series of five reports that bear directly upon the question of urban-rural balance. First, the report of the President's National Advisory Commission on Rural Poverty, The People Left Behind, published in September 1967: Of the total of 158 recommendations presented in the report, many deal directly with urban-rural development. Most important of the recommendations for us today are those supporting the establishment of multi-county area development districts. Envisioned in the report is a national system of regions made up of several area development districts with each district, in turn, having one or more neighborhood service centers in close proximity to local residents. One important policy approach presented by the distinguished body of citizens making up the rural poverty commission is, therefore, the creation of a national system of development regions, districts and service centers for the overriding purpose of mobilizing a total resource commitment to help rural communities support themselves by being able to attract industry and provide essential social services.

Next is the report, Urban-Rural America: Policies for Future Growth, by the Advisory Commission on Intergovernmental Relations. This second report further supports the notion of a national urban development policy. Cited in the ACIR report are specific federal and state policies for influencing industrial location and population movements. Such policies include federal tax incentives, below-market-rate loans and direct payments, along with improved state sponsored credit facilities -- all intended to influence business and industrial location in

the smaller metropolitan centers, such as Fargo-Moorhead and Duluth-Superior in the Upper Midwest. Percentage preferences on federal and state contracts and geographic dispersion of federal and state building and the facilities that are in accordance with comprehensive state development plans are additional measures mentioned for influencing industrial location. Similarly, influencing population movement from rural to metropolitan areas would be the concern of federal-state matching programs on resettlement allowances, federal funds for on-the-job training in nonmetropolitan areas, and federal-state employment service programs. Of particular importance to our deliberations here, however, are the recommendations for large-scale urban and new community development in which both federal and state incentives would be utilized to redistribute jobs and services and, thus, improve access to economic and social opportunity. Prime examples of efforts in new community development are (1) the new town of Jonathan and (2) Minnesota Experimental City.

The National Commission on Urban Problems in its report, Building the American City, offers, among other recommendations, one dealing with establishment of a design development bank that ultimately would make possible a revolutionary improvement in the quality of the American city. Also pushed very hard in the so-called Douglas report is the systems approach to the design of buildings and cities and, indeed, entire regional systems of cities and service centers.

A fourth governmental body, the Ad Hoc Subcommittee of Urban Growth of the Committee on Banking and Currency, House of Representatives,

Ninty-first Congress, very recently held a series of hearings on population trends and policies. Again, much testimony was presented on urban-rural settlement alternatives facing America. Generally stated, the one obvious alternative is continued metropolitan population concentration which, by the year 2000, would result in a concentration of sixty percent of the national population in four huge agglomerations, with most of the remaining 40 percent living in urban concentrations, too.

Finally, the non-governmental National Committee on Urban Growth Policy, which came out with a report entitled, The New City, recommends the building of 110 new communities within the next thirty years to provide homes and jobs for 20 million people. One hundred of these communities would average not more than 100,000 population each. Many small towns thus could become viable cities of moderate size within the next thirty years if the right steps are taken now to develop an economic base with the essential services that must go along with such development.