The rural policy question

Are we on the verge of a rural renaissance, or will hopes for a viable rural America be extinguished?

BY CHARLES W. FLUHARTY

In 1908, President Theodore Roosevelt appointed the Country Life Commission to consider and solve the so-called “rural problem.” “The social and economic institutions of the open country are not keeping pace with the development of the nation as a whole,” he said.

Nearly a century later, while much progress has been achieved, significant rural inequities continue to challenge policy-makers.

Today, we are in the midst of an emerging national dialogue regarding the development of a more integrative, community-based national rural policy. The attention this issue is receiving today is by far the most substantive rural policy opportunity of the last 25 years, and may indicate the potential for a dramatic new examination of these issues. We may truly be at a rural “tipping point” – or we may be heading into the eye of the “perfect rural storm.”

Will we be able to exploit the rural tipping point, or will we allow the perfect storm to finally extinguish the hopes for a viable rural America?

The perfect rural storm?

Although serious discussions of rural America’s challenges are emerging, along with unique opportunities in the public, private and philanthropic sectors, these are occurring as a potential “perfect rural storm” approaches on the horizon.

This convergence includes three increasingly challenging rural frameworks: 1) the rural dilemma in American federalism; 2) the fiscal crisis in state and local government; and 3) the challenge of rural economic and institutional restructuring. If the challenges are not addressed, this perfect storm will undoubtedly overwhelm rural people and places.

The rural dilemma in American federalism

While much has been written regarding federal devolution of public policies, programs and funding, in reality we are at the end of a 25-year shift in interjurisdictional relationships. Though many rural advocates believe greater state-level control over programs, personnel and funding works to the advantage of rural areas, this outcome remains uncertain. And,
despite much recent attention to “smaller government” in our nation’s press, this is not the reality.

As this nation’s “New Federalism” policy framework continues to evolve, local and regional government capacity becomes increasingly critical for rural communities. Today, 2,305 of our nation’s 3,043 counties are rural. This accounts for 76 percent of all counties, 83 percent of our nation’s land, and between 20 percent and 25 percent of our nation’s population, depending upon how you define “rural.”

These facts are of more than mere interest, as the economies of rural communities are significantly more dependent upon federal government transfer payments than are urban communities. Today, nearly 18 percent of total personal income in rural America is derived from federal transfers to rural citizens. Social Security, retirement, Medicare and Medicaid payments constitute 80 percent of these totals. As the federal government reduces these payments, income substitutes must be found within rural communities if they are to remain viable, much less grow, in the future.

Additionally, rural governments are smaller and most often manned by part-time “citizen servants.” The overwhelming majority of county governments (72 percent) serve fewer than 50,000 persons. In fact, 700 of the 3,043 counties in the United States serve fewer than 10,000 inhabitants. These jurisdictions have little or no access to the technical assistance, research, and grantsmanship support within larger units of government. This further advantages suburban jurisdictions in capturing state-level funding for local and regional governments.

A hidden but equally critical challenge is the nature of federal support to rural communities. In 2000, federal per-capita spending in rural areas was $5,481 per person. While this is a significant commitment, it remains below the $5,742 spent per urban citizen.

An even greater challenge for rural areas is the difference in the type of federal funding that rural and urban areas receive. Nearly 70 percent of federal funds flowing to rural America are federal transfer payments to individuals. In urban America, transfers account for less than 50 percent of federal spending, with the remaining funds targeted to infrastructure and community capacity building for government and nongovernmental organizations. This 20 percent differential assures much stronger federal support for building the capacity of urban and suburban communities, organizations and institutions, and this disadvantage is exacerbated with each passing year.

The fiscal crisis in state and local government

As we all know, state and local governments are facing their most difficult fiscal crisis since World War II. With over $200 billion in state deficits anticipated in fiscal years 2003 and 2004, rural communities face a significantly more critical decline in relative community capacity funding, for the reasons outlined above. In addition, because of the relative weakness in the philanthropic and nongovernmental sectors within rural America, institutional alternatives to state and local funding are also less available.

Moreover, as large swathes of rural America continue to depopulate, the ever-declining tax base of these counties further complicates this challenge. While all governments face the same dilemma, rural jurisdictions have fewer handles to pull, fewer adjustments to make, and many more difficult choices to face.

The challenge of economic and institutional restructuring

Until this most recent economic downturn, rural unemployment had declined to its lowest level since the recession of the early 1990s. After a decade of decline, rural earnings and per-capita income were rising at rates similar to those in urban areas. However, recent declines in the rural manufacturing and services industries have taken away most of these gains, and major job losses have occurred in many other sectors.

Sadly, rural employment is still dominated by low-wage industries. In 2000, 24.5 percent of rural workers were employed in the service sector. In 1999, more than 27 percent of the rural work force over age 25 (nearly 5 million workers) received wages that would not lift a family of four above the official poverty line, if earned full-time, year round. This is significantly higher than the 19.3 percent urban rate.

Rural earnings per non-farm job
remained relatively constant between 1999 and 2000, dipping slightly from $25,982 to $25,980. Meanwhile, in urban areas, earnings per non-farm job increased from $38,499 to $38,806.

Thus, rural incomes remain significantly lower than urban incomes. In 2000, the per-capita income was $21,847 in rural areas, compared to $31,332 in urban areas. Particularly disturbing is the stark reality that rural poor families are more likely to be employed and still poor. In 1998, two-thirds of rural poor families had at least one member working at some time during the year, while 16 percent had two or more family members working, and 29 percent had one or more full-time, full year workers, a disturbing 9 percent increase since 1996.

In general, poverty rates are higher in rural areas than in urban areas (13.4 percent compared to 10.8 percent in 2000). Child poverty is also higher in rural areas. This problem is particularly daunting in the 382 persistent poverty counties, defined by the federal government as those with 20 percent or more of their population in poverty from 1960 to 2000 – 95 percent of which are rural. These comprise nearly one-quarter of all rural counties, and are located mainly in the South, core Appalachia, the lower Rio Grande valley, and on American Indian reservations.

A rural “tipping point”?

This perfect rural storm, in which the state and local government fiscal crisis, the continuing rural disadvantage in federalism, and the ongoing economic and institutional restructuring within rural America work in consort, will only be overcome if rural America captures the potential of several key emerging opportunities.

This exciting set of public, private and philanthropic initiatives are creating the potential for a true rural “tipping point,” not yet fully actualized, but within our grasp. The potential for a true rural renaissance can be seen, and is briefly outlined below.

Crafting a rural public/private entrepreneurship

A new institutional framework for rural economic and community development is emerging. It is a framework in which new and exciting, cross-sector innovations occur, where regional collaborations and jurisdictional realignments are happening, where increased attention is given to place rather than sector solutions, and to regional competitiveness, rather than subsidy dependence.

If this public/private moment is to be optimized, public and private entrepreneurs in rural America must be lifted up, and the models they are creating must be replicated across space, time and circumstance. Many of these examples are highlighted in this issue. Many more exist, and in every sector, unique rural experiments are under way and are achieving success.

The unique rural laboratory

Rural America offers a laboratory for institutional innovation, because of size and scale. Investments in rural America can truly matter, when done right. Unique programs in our most distressed rural areas have already achieved success. For example, the roughly $9 billion invested by the Appalachian Regional Commission over the past 40 years has lifted over 100 counties out of the “distressed” category. In every sector, and at every level of government, experimental models are working, and new approaches are being tested and refined.

Untapped human resources exist in much of rural America. As Joel Kotkin pointed out in a July 21 op ed piece in The Washington Post, “The Great Plains today are a kind of ‘brain belt,’ boasting one of the nation’s highest levels of literacy and scholastic achievement, with Minnesota, North and South Dakota, Iowa, Nebraska and Kansas almost invariably ranking at or near the top in national science test scores and in bachelor’s degrees per capita.”

Yet, “brain drain” exists in these states because economic opportunities do not. Investments to address this deficiency would produce significant change. However, in other rural regions, new investments in human capital must still be made.

Finally, while each rural area is different, rural investments highlight commonalities across space, from urban and suburban areas to our smallest rural communities. What we lack are intermediaries and sufficient capital to fully exploit these new rural experiments.

New rural governance

To optimize these opportunities, a “new rural governance” must emerge. In many places this has already begun. It is evident when local and state governments join hands with the private sector and nongovernmental organizations to optimize public/private collaboration within a regional framework.

While structural challenges continue to beset rural communities, this new governance framework offers a unique opportunity to neutralize them. As rural issues receive additional attention in cross-sector innovation, these models will become increasingly important.

“Perfect storm” or “tipping point” remains the question. Ultimately, state governments will play a significant part in determining the answer to this critical question.

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Main streets throughout the nation are looking for new economic engines for a simple reason: the old engines are sputtering.

For much of the past half-century, agriculture and manufacturing have been the two main pillars of the rural economy. Both have enjoyed tremendous gains in productivity over time, meaning that fewer firms can produce more. As a result, consolidation in farming and factories has left more rural communities, especially smaller ones, wondering where they can turn for new sources of economic growth.

Signs of strain are showing in the rural economy. Economic growth is highly uneven across the countryside. Globalization is taking a toll on major sectors of the rural economy. And finally, population continues to shrink in many rural places, with the decline often greatest in the regions experiencing the smallest economic gains.

Economic growth is concentrated in roughly three to four of every 10 rural counties. Typically, these high-growth areas have one of three main characteristics: a major scenic amenity (mountains or lakes), proximity to a major metropolitan area where growth spills over from the city, or a primary hub for retail, health, or financial services. The third category often represents “right stuff” kinds of communities that essentially grow at the expense of neighboring communities. That is, in many parts of rural America, successful market hubs are serving an ever-widening market area.

The other side of this coin is that six to seven of every 10 rural counties are struggling to grow their economies. These counties are heavily concentrated in the nation’s Heartland where agriculture has been a primary economic anchor in the past. But they are also found in remote corners of the countryside, or in areas where consolidation has been present in other sectors such as energy.

Globalization is a big reason why rural areas dependent on farms and factories...
are struggling. Last year, for the first time in history, Brazil and Argentina produced more soybeans than the United States. This underscores the pressure on U.S. farmers to cut production costs and increase acreage, making do with less income per acre.

Similarly, rural factories feel the pressure of global competition. Many factories moved to rural locations in search of comparatively inexpensive labor, land and taxes. Those cost comparisons were typically made relative to the costs of doing business in U.S. urban locations. Today, however, there are far more comparisons to be made – and many are not in the United States. Last year, nearly 140 rural factories shut down, representing 45 percent of all mass layoffs in rural manufacturing. By contrast, plant closings were just 25 percent of mass layoffs in urban manufacturing.

Shifts in the rural economy are closely tied to recent demographic shifts in rural America. Areas with rapid economic gains generally enjoyed strong gains in population, according to the 2000 census. Conversely, rural areas with weak economies saw declining populations, especially throughout the Heartland. Those leaving tend to be the younger generation, a “double whammy” for many rural areas – a weak economy coupled with an outflow of current and future leaders.

New opportunities on the horizon

Despite these worrisome trends, opportunity still exists to strengthen the rural economy. While commodity agriculture, branch factories, natural resource removal and a host of traditional activities will still have a role in the rural economy; economic development in the future may depend on powerful new technologies. Regions must constantly invest in new sources of competitive advantage instead of just protecting the old. The power of this principle lies in its ability to transform rural regions from continued dependence on a commodity-based economy to one that is much more diversified. The principle also recognizes that what works for one region may not work for another.

While there are many items on rural America’s new economic menu, three merit special consideration: product agriculture, tourism, and advanced manufacturing.

Product agriculture

Product agriculture represents a spectrum of new opportunities that can be differentiated from the commodities that mostly define agriculture today. The spectrum runs from “near commodities” on one end to highly differentiated products on the other. A good example of a near commodity would be ethanol, which receives much attention, but probably represents exchanging one commodity (corn) for another (ethanol). That is, makers of ethanol will be subject to the same forces of this strategy being used. Farm-to-grocer or -producer alliances are not very well developed in the United States, especially in the Midwest where commodity production remains dominant. However, crop producers within an easy drive to major cities have a clear-cut opportunity. The success of this strategy depends on having enough growers to consistently provide products.

A related opportunity is to create regionally branded foods. The Europeans have been very successful in creating specialty foods that are tied to a specific geography. For example, France’s Institut des Appelations d’Origine governs the use of regional labels on food products. Sparkling wine can only be called “Cham-
The future of this investment structure is questionable because of a few widely publicized breakdowns in control of GM plants last year. New regulations stipulate separation distances from conventional crops. Some of these requirements will be extremely difficult to meet in the Corn Belt. Thus, if current regulations stand, this opportunity may be limited to areas east and west of the Heartland, where more substantial setbacks are more possible.

An even bigger hurdle may be getting farmers to comply with identical production protocols. Farmers are accustomed to growing crops “their way.” For pharmaceuticals to become a development engine, several hundred farmers may have to all abide by the same ISO 9000 production protocols – the kind of critical mass of production needed to supply a $100 million processing facility. This represents a very big shift in culture and practice. ISO 9000 protocols are international quality standards followed by major manufacturers around the world.

Tourism

Tourism offers significant advantages for many rural regions, yet building critical mass is an issue with this opportunity, too. Three kinds of rural tourism strategies are emerging. The scenic strategy builds on mountain vistas and lakes. The nature strategy exploits a unique advantage in selling nature for recreation. In South Dakota, for example, some farmers have given up corn and soybeans so their land can be a pheasant habitat for East Coast hunters.

Finally, there is a cultural strategy that leverages a region’s unique history and culture. Tuscany is a great example of this strategy at work in a largely rural region. Tuscan foods are given a notable regional identity. Tuscan inns combine the region’s food with its artistic, scenic and cultural amenities.

Unfortunately, there are not a lot of examples of similar success yet in rural America. Napa Valley is one notable exception of the power of a development strategy that combines regionally branded foods with the cultural and scenic assets of a region.

Manufacturing

A final opportunity is building on the existing manufacturing economy. The use of advanced manufacturing strategies allows older rural factories to compete. Advanced manufacturing is the concept of using cutting-edge technologies to allow clusters of small rural firms to compete in the global marketplace.

North Carolina’s hosiery industry provides a compelling example of rural success in advanced manufacturing. About 60 percent of the nation’s socks are made by 35,000 employees in rural North Carolina. The firms are small, employing fewer than 75 workers each and concentrated in rural communities in the state’s Catawba Valley.

On the surface, this industry seems especially vulnerable to globalization pressures. Quite to the contrary, the hosiery industry has prospered by building new synergies among the small firms through clusters.

The creation of the Hosiery Technology Center in 1989 at Catawba Valley Community College provided a focal point for testing and adapting new technologies that none of the small firms could test or adopt on their own. The center also provided training for industry workers to more effectively use new technologies.

The result has been steady investment in new technology, more productive workers, and a highly competitive industry. More recently, the industry has pushed aggressively to establish rigorous quality certification programs and to take advantage of e-commerce methods for purchasing inputs and marketing its products (www.legsource.com).

One key to cluster efforts in the future appears to be a formal organization that can forge partnerships among firms. The Hosiery Technology Center played that role in this case. While rural America has a strong history of cooperatives, especially in agriculture and utilities, there are relatively few examples of multifirm clusters like the one in North Carolina. Thus, public officials may want to consider ways to help create the institutional setting in which clusters might form and flourish.

The common thread

There is an important common thread in each of rural America’s exciting economic opportunities. That thread is interdependence. While known for its rugged independence, many of the best economic opportunities on the horizon will require a much more interdependent business model. This may mean 200
farmers signing on to the same ISO 9000 protocols for growing special corn, or hundreds of textile companies pooling their resources to adopt new technologies. A real issue for state lawmakers to think about is how they create public institutions that can help broker such cooperation around new economic opportunities.

**New policies for rural America’s new frontier**

A new economic frontier for rural America means a new policy frontier, too. Sticking with the traditional line-up of rural policies will not provide the support communities and entrepreneurs need to seize new kinds of business opportunities. Simply put, agricultural policy alone is no longer sufficient to meet the needs of the new rural economy.

Evidence suggests that rural regions with strong local economies tend to do four things well. First, they think regionally, recognizing that parochial development efforts often fail in a global economy that requires some level of critical mass. Second, they create institutions that forge regional partnerships. A number of regional institutions are taking form across the countryside, from the Elkhorn Valley Economic Development Council in Northeast Nebraska to the Prairie States Center for Entrepreneurial Leadership in the Panhandle region of the Great Plains. Third, successful regions make steady investments in knowledge and training, knowing that new economic engines usually flow out of such investments. And finally, they leverage educational institutions, just as the hosiery manufacturers used Catawba Valley Community College.

New rural policies will build on these findings and the directions they will take are increasingly clear. Two major shifts in thinking are plain. First, new rural policies — whether at the state or federal level — will likely shift from a focus on subsidies to attention on growing more entrepreneurs. Business starts and expansions will be the true anchors of the new rural economy, and the evidence suggests that entrepreneurs face a tougher time in rural places than in cities. Second, policies will emphasize rural regions as the essential focus of new programs, acknowledging that “one-size-fits-all” simply no longer works. What is good for southwest Georgia probably does not work for western Kansas.

Within this broad framework, three program directions are likely to be important at the state level.

Entrepreneurship initiatives will be a core building block of new rural policies. Technical assistance and technology transfer are two areas of special value. Rural areas often spawn many business starts, but they are less successful in helping young businesses reach the growth phases that lead to significant gains in employment and local wealth. Better access to business and technical assistance is one answer. Another key issue is access to equity capital. Nearly every rural Main Street in the country has a community bank, but few have an equity fund office. While there are some highly successful equity funds based in rural areas, they have not been widely replicated. A public-private partnership will probably be required to solve this dilemma.

Technology programs will be another key rural policy program area. Broadband technology is an obvious example, but not the only one. New investments in pharma crops are another. In general, technologies that help rural businesses go beyond commodities and exploit product niches will be important. This may suggest a richer portfolio of state investments in technology than was true in the past.

Finally, rethinking governance at the regional level will be an important dimension of new rural policies. Counties are important units of government, but in many cases they were drawn with 18th century technology. State governments are in a position to encourage the formation of new regional partnerships that can bring several counties together. These institutions will need enough force to bring major economic players and local government officials to the same table and yield new and enduring forms of economic partnership.

**Conclusions**

Economic opportunities for rural America lie in new technologies and a renewed ability to leverage the unique assets of the countryside. But these new business opportunities also represent a new way of doing business — working regionally to build new economic engines.

State governments have a unique opportunity to assist by encouraging the development of regional partnerships, focusing attention on growing more entrepreneurs and launching new investments in technologies.

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