DOCUMENT RESUME

ED 266 906 RC 015 627

TITLE The Economic Evolution of Rural America. Hearings before the Subcommittee on Agriculture and Transportation of the Joint Economic Committee. Congress of the United States, Ninety-Ninth Congress, First Session (February 11, May 15, 1985). Part 1.
INSTITUTION Joint Economic Committee, Washington, D.C.
REPORT NO Senate-Hrg-99-280-Pt-1
PUB DATE 85
NOTE 815p.; Some sections may not reproduce well due to marginal legibility. For part 2, see RC 015 626.
PUB TYPE Legal/Legislative/Regulatory Materials (090)

EDRS PRICE MF05 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS *Agricultural Trends; Agriculture; Change Strategies; *Economic Change; *Economic Climate; Economic Development; Economic Opportunities; Government Role; Hearings; Policy Formation; Rural Areas; *Rural Development; Rural Economics
IDENTIFIERS Congress 99th; *South Dakota; *United States

ABSTRACT

Three days of hearings focused on rural America, in general, and on South Dakota (as the most agrarian of all states), in particular, in an attempt to formulate a blueprint for a national agenda on improving the state of rural America. The first day's sessions addressed the outlook for the South Dakota economy. The second day's sessions considered the topic, "Rural Mainstreet: An American Institution," providing evidence that rural America is not participating fully in the current national economic recovery; the rural population is dwindling and aging; rural income is sagging; agricultural and natural resource industries are in recession; and small communities are losing their economic identity. The third day's session discussed the role of rural economic development as the keystone to the revitalization of rural America and ideas for formulating rural development policies and strategies to strengthen the rural economy. Testimony includes statements from witnesses, prepared statements, letters, and supplemental materials from almost 50 individuals representing manufacturers, local governments, United Sioux Tribes, National Federation of Independent Business, and the Chamber of Commerce of the United States. (NEC)

S. Hrg. 99-280, Pt. 1

THE ECONOMIC EVOLUTION OF RURAL AMERICA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

PART 1

FEBRUARY 11, 1985—THE OUTLOOK FOR THE SOUTH DAKOTA ECONOMY

MAY 8, 1985—RURAL MAINSTREET: AN AMERICAN INSTITUTION

MAY 15, 1985—RURAL ECONOMIC DEVELOPMENT

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
52-112 O WASHINGTON : 1985

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[Created pursuant to sec. 5(a) of Public Law 304, 79th Congress]

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CONTENTS

WITNESSES AND STATEMENTS

MONDAY, FEBRUARY 11, 1985

AFTERNOON SESSION

WEDNESDAY, MAY 8, 1985

THE OUTLOOK FOR THE SOUTH DAKOTA ECONOMY

MONDAY, FEBRUARY 11, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in Freeman, SD, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senator Abdnor.

Also present: Dale Jahr, professional staff member.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The subcommittee meeting will come to order. I am very pleased to see this large turnout and interest in the hearing we are holding. This is a pleasure to welcome you all to this kickoff meeting of our rural initiative program that we will be carrying on for over 1½ years. I see we still have people coming in, and that is what we like to see. To my right and your left is our economist, Dale Jahr, who is a very important figure on the Joint Economic Committee. He does a lot of our background work and puts our plans together. Dale is a young man from South Dakota who hails from Madison. I took him away from the University of South Dakota and brought him in so we would have somebody on that committee that knows something about South Dakota. You will be hearing from Dale as our meeting goes along.

I want to specially welcome Rod Janzen, Principal of the Freeman Academy. He has a group of students here today and I couldn't think of a group I would rather see here than some young people who we hope are going to be in South Dakota for a long time to come. I wish I had time to pick their minds, because believe me I have learned that young people do have thoughts and they are good, hopefully I will have the time to do that as we go along.

Let me begin by noting that this large turnout does represent both good news and bad news in my mind. It is bad in that I doubt that this many of you would be here if economic conditions were not so depressed here in South Dakota and other States throughout the midwest. I think it is very good news, though, that so many people, several of you I know come from quite some far away, have shown a willingness to take part in this effort to bring the same economic recovery to America's rural areas that other parts of the country have experienced.

All of you have ideas that deserve to be heard and that is why I have brought the Joint Economic Committee here to Freeman to make sure that Washington hears what you have to say. Speaking of Freeman, I do want to give special thanks to the Cornerstone Restaurant for providing today's accommodations. I wanted to begin this rural revitalization effort right here in Freeman because it is one of South Dakota's most progressive small communities. The resourcefulness and the energy embodied in this town are qualities we will need as we move ahead in these difficult times.

The mission we are beginning today is one of historic proportions. The United States is in the strongest economic recovery in three decades, we are in the midst of it, but unfortunately not all Americans share in that prosperity. American agriculture and America's rural areas as we know all too well, are in the midst of the worst recession since the 1930's. In Washington I frequently refer to our rural areas as the forgotten economy. In my role as vice chairman of the Joint Economic Committee, where I will be overseeing national and rural economic issues, my primary and number one task is to put agriculture back on the economic map.

When I first joined the Joint Economic Committee, I watched the brightest, the most acclaimed economic experts in the world come to testify, people like Walter Heller, Alan Greenspan, and all the rest of them, but not one of them would mention the word agriculture. In fact, just this year the President's annual economic report was just released and we had just one page devoted to the crisis facing rural America. I can assure you, ladies and gentlemen, those days are over as far as I am concerned. As a Republican leader of that committee, I can guarantee you that not one single witness, whether it is Jim Baker, David Stockman, or Paul Volcker or anyone else who will come before the committee, will not be asked how agriculture and rural America affects and is affected by the U.S. economy. We have a strong story to tell here in this part of the country and Washington, DC has a lot to learn about it. My role and yours will be to make sure our story gets told and the policymakers in our Nation's capital listen, learn, and do something about it.

President Reagan has heard a lot from me already, and he is going to hear more from me. I am going to be meeting with the department heads of the administration like David Stockman and Mr. Volcker at the National Reserve Board, and when they hear what we will have to say then we will have taken a big step forward, a step that is long overdue and it will be a long time renewal of our home towns and revitalization of our rural sector. It is going to be a tough job and we are going to have to roll up our sleeves, and that is exactly why I have asked you to join my rural economic task force so that together as a group we can work to overcome the difficult circumstances facing us. You know as well as I what those problems are, but just allow me to list a few.

I know our principal issue is agriculture, but today in our kickoff meeting we are discussing the whole spectrum of rural America, of course everything does revolve around agriculture, our main streets, our schools and all, but these are the things we want to cover. It is an understatement to say that agriculture is in trouble. I know that and certainly you know it. American farmers are competing in a global setting. They are trying to beat French subsidies and aggressive Argentines, Australians, and Canadians. The strength of the U.S. dollar has hurt us badly in that competition. As our family farms and independent producers go under, so go our small businesses and our communities.

Large scale agrifactories tend to reduce the demand for labor and, subsequently, the demand for the goods and services provided by our main street merchants. Rural population is not growing as rapidly as urban. In fact, 800 counties—one-fourth of all the counties in the United States—lost population since 1980. Next, deregulation has taken it's toll on rural America. While most of the Nation's population has benefited from deregulation, you and I know how it has hurt here in rural America. We just do not have enough competition in our industries such as airlines, buses, railroads, trucking, banking, and telecommunications to ensure that services we need get delivered. Believe me this has been a very serious problem and I said exactly that when they started on this deregulation program. Again the metropolitan areas of the country benefit, but we out in rural America suffer from it.

The American economy is a rapidly changing one, it constantly changes, and rural America has not kept pace with those changes. New technologies must continually be developed and applied to help us stay in the forefront of economic change. Sixth, without question, the most important problem taking place in Washington as it affects farmers, business, and everyone else is the Federal deficit.

We have a national debt of $1½ trillion and we can not continue to absorb that. We haven't a choice but to learn how to do better with less. Now all of these difficulties merge together to form one very basic problem in our State and the neighboring States—and that is simply a lack of confidence in rural America. I picked up the Sioux Falls Argus Leader yesterday to read this headline: "Fear That Won't Fade Grips Midwest Farmers." That is the bottom line of everything we are talking about.

There is no confidence out here and things must improve if we are going to, and we have to have action to bring this about and get us out of this recession. I left no stone unturned last week when I had Mr. Volcker in front of me and I told him that the most single important thing, along with the high interest rates, was the lack of confidence I am seeing take place out in rural America. Everyone is scared, everyone is concerned, and I think this leads to many of our problems. We have to be honest. If some answers don't develop soon, it is going to be tough to turn this around. Those answers are not going to come from Washington, they are going to start here at the grass roots level with all of you who live with these economic problems day after day.

Today we are going to begin putting out minds together to come up with solutions, recommendations, and good ideas on how to improve the South Dakota economy and our way of life. Now this hearing is going to be the blueprint for a national agenda on improving the state of rural America. To compose this blueprint today we are going to be moving into the following topics: An assessment of the South Dakota communities, small business, and more specifically agriculture; economic development; the rural labor force; the rural financial resources; transportation and public works; education; health care, and technology for rural areas.

As we explore these areas, let's keep in mind the resources we have to deal with as we address the issues. We have private sector resources, we can talk about neighborhood self-help and volunteer programs, churches, and education, and we have a variety of statewide and national organizations, small businesses and large businesses and, of course, we should talk about what roll our local county, State and Federal Government should play. In short, we have a lot of talent and resources going for us. Let's discuss how we can use these to maximize our opportunity, not to minimize our problems. So once again let me thank you for attending today.

The fact that you are here is testimony to a State that responds to its problems with character and courage and by fighting back rather than knuckling under. It is those areas that make South Dakota the place where this rural revitalization effort should begin, and this is our kickoff, this is just going to be one of many meetings. Some throughout the United States, most of them in Washington, DC of every group we can think of we will be bringing in.

So with that, before we start the first witness I am going to have Dale Jahr set out some ground rules and make a general statement here. We have three witnesses we have asked particularly to be here for our kickoff before we go into the general witnesses. I am sorry I guess we should call on these individuals who volunteered last fall to begin gathering information for the hearing we have assembled today. I assure you this is something we did not put together just overnight. We have had our people working on it for a long time. They have already dedicated numerous hours in preparing for this National Rural Issues Initiative.

I have Mr. Jerry Johnson, director of the Business Research Bureau of the University of South Dakota; Mark Edelman, who is the Public Policy Economist at South Dakota State University; and Russell Smith, who is director of the Governmental Research Bureau at the University of South Dakota. That is why I have asked each of them to share a few of their observations here this morning in our kickoff. Jerry Johnson will discuss the South Dakota economy. Jerry, we thank you for coming here today if you will please come forward.

STATEMENT OF JERRY W. JOHNSON, DIRECTOR, BUSINESS RESEARCH BUREAU, UNIVERSITY OF SOUTH DAKOTA

Mr. JOHNSON. Thank you, Senator. It is nice to be in the State of South Dakota. First of all I may comment I have taken a year off and I am now at Iowa State University for 9 months, and as I was telling Senator Abdnor in the last several months I have listened to the people of the State of Iowa get very excited, and I have been invited in to join them in discussing their problems, and I point out to them that some of their comments are the same comments that were being made quite frankly in the State of South Dakota roughly 7 or 8 years ago. Some of the stresses they are just beginning to experience over there you folks have been through a long time ago. So I have suggested to them that possibly what they need do is to come over to South Dakota and learn a few lessons, because you folks have already experienced those stresses.

Senator first of all let me commend you on the initiative. I think it is very clear in rural America that changes are taking place, and I am gratified certainly that there are as many of you here today as there are. I have a few written comments that I am going to make, and then in as much as you have the group as you have, I would prefer that to allow them of course to make their comments as I am sure you have more to offer than I have.

During the past several months, attention of course has been increasingly directed to the financial stress that we have seen in the agricultural sector in this country. Government and industry leaders journey to Washington essentially giving the same message and that of course is the farm communities is in probably the greatest financial stress since the depression of the 1930's. From Washington has frankly come a noteable lack of interest. Agricultural experts have offered evidence suggesting that up to a third of all farmers will continue to slide closer and closer to insolvency.

Indeed let me interject this past week I happened to run in to a fellow in Minneapolis who was offered some additional information that in excess of 40 percent of all farmers in the central part of the United States have a debt to asset ratio that exceeds 40 percent. About 21 percent have debt to asset ratios that exceed something like 70 percent, suggesting the severity of that problem. Most smaller midwestern communities, agriculture clearly is the primary economic activity. The financial stress in agriculture then is a very important component in describing the various structural changes that are taking place in the rural community. Inasmuch as agriculture is such an important aspect I would like to initially give you a brief historical perspective of some of the things that have happened.

The 20 years before World War I have commonly been dubbed as sort of the golden age of American agriculture. During this period farm income and prices rose rapidly. During and up to 1920 after World War I prices and incomes continued to rise with foreign demand interestingly being an important driving force in the upward movement. In the short recessionary period of 1920 and 1921 the prosperity of the 30 years previously came to an end. Mortgage indebtedness incurred during that earlier 30-year period continued to weigh heavily and denied the agricultural sector a share of the recovery of 1921. Interesting is the parallel of the 1984–85 period. Then, as today, foreign markets failed to absorb the expanding output which was due to among other things the technological advances in your industries.

Throughout the 1920's farm incomes and prices remained relatively low. In 1929, in order to promote an orderly agricultural marketing system, the government intervened in the agricultural markets for the first time when the Federal Farm Board was created. This attempt quite frankly failed. As price takers, the farmers during the depression were probably the earliest and most cruelly effected by that depression. I happen to be an Iowa farm boy and my family came through the depression, and my mother I guess still remembers it very, very clearly.

Through World War II and in the 1950's agriculture in general flourished with a brief slump in 1948 and 1949. During this period the full parity concept was withdrawn, and however despite this modest change in the guideline, the soil bank and other programs continued to provide support to agriculture. In the 1960's about $3 billion was being directed to the agricultural sector to remove from production of about 250 million acres.

The stormy history then of agriculture is clearly reflected in historical development of the rural communities of America. Most developed as service centers to the agricultural sector or if they did not develop as service centers to the agricultural sector, they developed as centers of local government. Structurally, the communities were driven by income generated by the agricultural sector. From this economic base employment and income was provided to support the secondary or retail trade of these communities. Indeed in most of these communities you had the clothing store, the hardware store, and the small eating establishment, and each of these making up what is referred to as sort of the fabric of rural America.

Finally, the banker provided the financial services to facilitate and support these activities. As providers of service to the communities, these cities, these small towns appeared to be relatively efficient. Indeed, they were what as economists would call the least cost structure. Today the question of whether these communities are any longer the least cost units for the delivery of these services is in question. Indeed, we see a new development. Real farm income, of course, has continued to grow. Both the primary sector and the secondary activities within the community certainly in the 1960's and up through 1968 continued to grow. Partially as a consequence of the prosperity, by 1968 for the first time, the United States was to be faced with a problem of inflation.

Indeed, after 40 years the demand oriented macroeconomic policy and a maturing economy pressures, on the supply side of the market were to be felt for the first time. Lagging productivity along with continued rising prices signaled the beginning of this new era. Further exasperating the problem again was the entry into the Viet Nam war. With inflation, a perceived rapid growth in income left a false impression that each of us were benefiting. We were benefiting with large gains. Though false the behavior of this period began was significantly influenced and this changed behavior toward what we are going to call borrowing became very important in the 1980's. Indeed, the idea of leverage, borrowing, became a widely accepted interest of management. This was true in both the farm and non-farm sector.

With inflation and enormous price increases of 1972 and 1973, land prices rose rapidly. New equipment was purchased, and new buildings were built. Businesses similarly sought out new markets and expansion opportunity. Perceived money growth, indeed most perceived that it was going to continue, appeared to justify this expansion. Appeared to justify that we should continue this rapid growth. To finance the expansion, debt grew very rapidly. Later as inflation slowed, those who expanded through debt ran in to difficulties as cash flows began to shrink. This was true, and I want to emphasize this in both the farm and non-farm sectors, it was not only the farmers, but certainly in the case of the smaller business where the same problem existed.

The financial sector was similarly influenced by the inflationary environment, the rapid growth in their deposits, this provided an expanded deposit base to be used for lending activities. Due to what appeared to be the growing equity base in both farm and non-farm businesses, expanded lending appeared to be a rational course of action. Indeed it was one of those things where each responded in a rational manner. With hindsight and the knowledge that much of the equity was inflation created equity and not based on productivity, many of these loans probably should not have been made. Today the cash flow from these assets that were purchased is simply not adequate to service the debt and has created many of our problems.

A comment or so on interest rates. Prior to October of 1979, interest rates were as generally agreed held below market levels by the actions of the Federal Reserve. As the cost of financing is a central consideration in the purchase of an asset, these arbitrarily low levels tended to encourage further borrowing. More important of course was the impact on individual firms, both farm and non-farm again, and I want to emphasize that. With low interest rates, use of assets which were financed with leveraged dollars quite frankly was a very rational decision on both parties. A firm operating was able to margin at 20 percent with financing at 8 percent, it made sense to go out and borrow those funds.

The operating procedures of the Federal Reserve changed in 1979, the rapid change in the interest rate to their perceived market levels found many firms that were highly leveraged using short term funds in trouble, considerable trouble. This policy has had an enormous impact, enormous impacts on the changes that have taken place in rural America. Indeed let me emphasize that in a sense, that many of those things that were taking place in rural America probably would have taken place any way, but what happened was that this inflationary environment certainly accelerated it.

A couple other comments, with the economically efficient sized farm entities becoming larger and with the shift of the agriculture sector away from being a labor intensive industry, and the availability of highly sophisticated marketing tools, the demand quite frankly for the local services from the local communities have gone down. I don't like to say that, I believe in small businesses but quite frankly some of the larger farmers now are their own wholesalers. I don't blame them, it is the thing to do. They are going to the manufacturer directly, again I don't blame them, it is the thing to do, but it is happening. In terms of marketing today you can market directly to Chicago, you don't need a local sales person to do that. It is happening.

Another thing I think we need to have pointed out that is a changing demography and a changing structure of the demographics of these communities. At one point it was made clear to me by actually a South Dakotan when I was up in northern South Dakota several months ago. After World War II there were those that came back from the war and when they came back to the local communities the thing they did was went into businesses. If you stop and think about it most of them were 26 to 28 years old, if you do some addition you suddenly realize about 1981 or 1982 they began to retire, as they began to retire they began to sell their businesses to younger people.

What the younger people discovered was given a contract and given the interest rates we were experiencing in that period, it was not possible to stay alive in that environment and many of those businesses have had to go back to the original owners. In terms of traveling we used to worry about traveling 15 miles, now we don't worry about traveling 100 miles.

Finally let me begin to summarize by asking a question regarding the agricultural problem. That is, is this a problem that is going to continue to face us? And the answer is probably yes. The changes taking place are not done. We probably have several years to go. Most of us, and I think you ought view it this way is to view it as there are opportunities out here. I think in South Dakota there are opportunities like any place else in this country and we want to view it that way. One thing don't look for a villain, it doesn't do you any good. Don't blame it on someplace else. We have a problem, let's address the problem. It is two-fold, first of all there is a short term problem, the short term problem is providing income in the short term.

I think we see surfacing out of Washington and various other sources some ideas as to how to approach this problem. The second one is a long-run problem and probably a resource allocation problem, that is much more serious and much more difficult, and frankly it is probably going to happen regardless of what we do. Senator, I thank you very much.

[The prepared statement of Mr. Johnson follows:]

Prepared Statement of Jerry W. Johnson

I.

INTRODUCTION

During the past several months attention has been increasingly directed to the financial stress in the agricultural sector. Government and industry leaders have journeyed to Washington with the same message. The farm community is in the greatest financial stress since the depression of the 1930's. From Washington has come a notable lack of interest. Agricultural expert have offered evidence that up to a third of all farmers will continue to slide towards insolvency. Recent evidence has suggested that nationwide approximately 33 percent of all farm operators have a debt to asset ratio in excess of 40 percent with 15 percent exceeding 70 percent.

In most smaller midwest communities agriculture is the primary economic activity. The financial stress in agriculture is an important component in describing the structural changes occurring in the rural community. Given the importance of agriculture to the rural community, section II is a brief historical perspective on the agricultural sector. Section III reviews the small communities as a social entity for providing service to the primary sector. The final section discusses the many facets of the changes taking place in the rural communities.

II

Historical Perspective: The Farm Sector

Pre World War II Period

The twenty years before World War I have been dubbed "the golden age of American Agriculture". Farm income and prices rose sharply during the period. During and up to 1920 after World War I prices and incomes continued to rise with foreign demand being an important driving force in the upward movement.

In the short recessionary period of 1920-21 the prosperity of the previous thirty years was to come to an end. Mortgage indebtedness incurred during the previous period of prosperity weighted heavily and denied the agricultural sector a share of the recovery of 1921. Interesting is the parallel to 1984-85. Then, as today, foreign markets, failed to absorb the expanding output which was due to, among other things, the technological advances in the industry. Throughout the 1920's farm prices and incomes remained relatively low. In 1929, to promote "orderly agricultural marketing", the government intervened into the agricultural markets for the first time with the establishment of the Federal Farm Board. The attempt failed with the exhaustion of funds required to absorb the excess supply which resulted due to the incentives of the support prices.

As "price takers" the farmers were one of the earliest and most cruelly affected during the deceleration of the early thirties. The New Deal farm policy of the Roosevelt Administration was designed to address the rapid decline in income in the agricultural sector. From the failure of the Federal Farm Board the Administration learned the need to restrict supply through the use of acreage restrictions and marketing quotas. Though the purpose of the program was to restrict output-supply, again continued support prices and guaranteed sales served as enormous incentives to expand output. As a short run policy farm income assistance was provided. As a long run policy to promote a closer relationship between supply and demand, it probably was not successful.

World War II and Beyond

Through World War II and to the early 1950's agriculture in general flourished other than a brief slump in 1948 and 1949. During this period full parity was dropped as a policy guideline in an effort to withdraw the public sector from its extensive intervention in the agricultural markets. Despite this modest change in guidelines the soil bank and other programs continued to provide support to agriculture. By the 1960's about $3 billion was being directed to the agricultural sector to remove from production about 250 million acres.

III

Historical Perspective: A Midwest Community

The stormy history of agriculture is reflected in the historical development of the rural communities. Most developed as service centers to the agricultural sector or as centers of local government, i.e., as county seats. Availability of rail, river, or highway transportation served as the basis on which specific community locations were selected.

Structurally the communities were driven by income generated by the agriculural sector - the primary economic activity of the area. From this economic base, employment and income was provided to support the secondary, retail trade, activities of the communities. Included was the clothing store, the hardware and feed store, and the small town eating establishment. Each represented a vital part of the fabric of the typical small town. Finally, the banker provided the financial services to facilitate and support exchange activities in the communities. As economic and social entities the communities have flourished, though not escaping the cycles of the agricultual sector, over the past one hundred years. As providers of service to the communities they have tended to be relatively efficient or, in economic jargon, they have been the least cost social structures for the delivery of services to the rural communities.

IV

A Setting For Structural Change

Inflation -- A New Era

Real farm income continued to grow along with nonfarm income through the 1960's. Both the primary sector, agriculture, and the secondary activities within the communities continued to flourish. Between 1960 and 1968 South Dakota shared with the national economy in the longest sustained period of growth ever experienced in our country.

Partially as a consequence of the prosperity, by 1968, for the first time the United States was to be faced with the problem of inflation. After forty years of demand oriented macroeconomic policy and a maturing economy, pressures on the supply side of the market began to be felt. Lagging productivity along with continued rising prices signaled the beginning of a new era. Further exacerbating the problem was the entry into the Vietnam War.

Inflation Induced Behavior

With inflation, a perceived rapid growth in income left false signals of expanding wealth. Though false, behavior is and was influenced. A changed behavioral attitude towards borrowing took place during this period and was to play an important role through the early part of 1980. Indeed, leverage became a widely accepted instrument of management.

This was true in both the farm and nonfarm sectors. With inflation and the enormous price increases in 1972-73, land prices rose rapidly, new equipment was purchased and new buildings were built. Businesses similiarly sought new markets and expansion opportunities. Perceived money growth rates appeared to justify the expansion. To finance the expansion debt grew rapidly. Later as inflation slowed those who expanded through debt ran into difficulty as cashflows shrank.

Like the farm and nonfarm businesses, the actions of the financial sector were influenced by the inflation environment. With the rapid growth in money income, deposits grew rapidly providing an expanded deposit base to be used for lending activities. Given what appeared to be a growing equity base of both the farm and the nonfarm businesses, expanded lending was a rational course of action. With hindsight and the knowledge that much of the equity was inflation created equity and not based on productivity, many of the loans probably should not have been made.

Interest Rates

Prior to October of 1979 interest rates were, it is now generally agreed, held below market levels by the actions of the Federal Reserve. As the costs of financing is a central consideration in the purchase of an asset the arbitrarily low levels tended to further encourage borrowing. The below market interest rates and thus lower relative price encouraged movement of credit into the capital intensive industries.

More important was the impact on the individual firm - farm or nonfarm. With low interest rates, use of assets which were finanaced with levered dollars was a rational decision. A firm operating with a margin of 20 percent and funding at 8 percent was able to lever his profits with the debt financing. The same is not true with interest rates at 18 percent.

When the operating procedures of the Federal Reserve changed in 1979 the rapid advance in rates to their market levels found firms that were highly levered with short term loans in immeditate trouble. This was true of both farm and nonfarm businesses. The policy change had an enormous impact upon the rural communities. Though the structural changes taking place would have occurred regardless the process was accelerated.

Declining_Demand_for_Community_Services

With the economically efficient sized farm entity becoming larger; the shift of the agricultural sector away from being a labor intensive industry; and the availability of highly sophisticated marketing tools, the demand for services locallv provided has declined. Many farmers are today large enough to buy directly from the manufacturer making the retailer no longer necessary. To sell grain a direct electronic link to the major national markets is possible. Whether the local community is any longer the least cost means for delivery of services is now less clear.

Changing Community Demographics

After World War II many of those that had been serving in the armed forces returned to their home communities to seek employment. Nationally, the economy was in transition between a war time and domestically driven economy. Upon returning many went into business for themselves. These wartime entrepreneurs are reaching retirement. Most flourished in their respective businesses from 1950 to the early 1970's. During the mid 1970's they survived on equity built up during the 1950's and 1960's. Today, as they retire, they are selling their businesses to younger men and women who, though excellent managers, discover that no longer is it possible to purchase a small rural community business on contract, service the debt, pay the principle and provide day to day living expenses. The busi- .s, all to frequently, is returned to the orignal seller only to be closed.

Growth in Regional Shopping Centers

Added stress to the small retail communities has also been caused by continued advances made in transportation technology. The willingness of the consumer to travel many miles to shop in the regional shopping areas has, to a considerable extent, been due to the improved conveniances in transportation. The regional shopping areas have grown rapidly to meet the demands of their expanded market areas. While the regional shopping centers have expanded virtually every small community has seen the return of a modern day general store. Stocked in these stores are necessity items which are needed on a day to day basis. The larger shopping facilities have replaced the local specialty store as the low cost delivery mechanism of the non convienance goods. The concept of the "dual economy" in South Dakota reflects the changing marketing patterns. As the smaller communities have contracted the shopping centers have continued to grow. Retail sales figures in 1983 began to reflect this change.

Agricultural Problems - Continuing Stress on Community

From an economists perspective the short run problem in agriculture is one of instability in farm income. Since agriculture is the primary economic base of most rural communities instability in farm income means instability in retail trade. Periods of stress are common whether it be due to low farm prices or poor crops. The long run problem is much more complex.

Most economists would argue that the underlying problem in the long run is the over allocation of resources to the agricultual industry. The evidence used to support this conclusion is the continued oversupply of agricultural products. The reason for the oversupply it is argued has been the rapid technological advances of the past twenty years or more. In 1820 each farmer produced enough to support four persons. By 1980 the same farmer could support in excess of sixty persons. Productivity since WWII in the agricultural sector has advanced twice as fast as in the nonfarm economy.

A second problem cited is the insensitivity of the consumption of agricultural products to price changes. What this means is that even though prices decline demand for the consumption of the products does not expand. It further means that prices will continue to be highly variable and will depend up short run supply conditions. Regardless, the long run problems of an industry - agriculture - in transition will continue to play an important role in the evolution of the rural communities.

Summary

The problems of the American rural communities are real as are the human costs. The costs can be, and should be addressed by the public sector. However, there is a delicate balance between market incapacitating intervention into the markets and providing assistance in overcoming human costs.

Senator ABDNOR. Thank you, Jerry. Your remarks gave us a good kickoff here. I think you have pretty well covered the broad areas and I thank you and I am happy you will be up here with us when we get into questions and answers. I think we probably will have our next gentlemen testify and give us his outlook. He has a lot of credibility in the agricultural field as well as all throughout South Dakota, and that is Mark Edelman. He is a noted agricultural economist and he is going to talk about the South Dakota farm sector and its relation to the economy. Mark, we are happy to have you with us. If I didn't say so, he hails from South Dakota State University.

STATEMENT OF MARK A. EDELMAN, AGRICULTURE AND PUBLIC POLICY ECONOMIST, SOUTH DAKOTA STATE UNIVERSITY, BROOKINGS, SD

Mr. EDELMAN. That is right, thank you Senator. I want to make that point clear. It is certainly my privilege to address this distinguished committee and this audience today to discuss some of the profound problems and challenges facing South Dakota agriculture in rural communities. I do have more written comments that I will submit in my prepared statement, but I want to confine my spoken comments primarily to two areas.

One is to help clarify the problem faced by rural communities, and also to outline the alternative policy options faced by rural communities. The rural community problem. It is twofold. The declining farm numbers in a continuing trend for South Dakota. The census bureau of farm numbers indicate in 1935 we had 83,303 farms. By the 1982 ag census we had 37,148. So farm numbers have continued to decline. If we look at the age distribution, we expect that decline to continue at least until the year 2000.

Very simply, the demographics of it is such that we have about twice as many farmers in the 45 to 65 age category as we have in the 25 to 45 age category, and so we simply have, will be having more farmers exiting the industry than have been entering at the present rates of entry. So, according to some projections that Professor Janssen and myself from SDSU put together a couple of years ago, we expect that by the year 2000 we will be looking at less than 30,000 farms in South Dakota because of the present age distribution. That is not saying we like that, but that is where we see the current trends continuing. The rate of decline is also effected by the current financial stress in agriculture, and we do have an indicator of that.

Last week Brian Schmiesing, another SDSU colleague of mine, and I released a survey of agricultural lenders that we had surveyed in November of last year. We had a 53-percent response rate of the ag lenders, and in terms of the current level of financial stress, we found that 16 percent were regarded as being in a weak financial position, 8.1 percent of farm customers of the ag lenders were in an inferior financial condition. So that is, there are two ways to look at that. That implies about 24 percent of the producers in agriculture are in a weak financial position, but it also implies about three-quarters are in a relatively sound financial position.

Now, while the net effect of the financial stress is to accelerate the decline in farm numbers, I think it also has to be pointed out that with lower machinery prices and land prices that we are seeing some isolated incidents where new entrants are entering into agriculture at a relatively sound position. What are the rural community options? Well, for rural community decisionmakers that are faced with declining farm numbers they basically have four options to consider.

One is to attempt to diversify the regional economy into basic industries that do not depend on the number of farms in the area. In other words, to foster home grown industries as well as attempting to attract outside industries might provide more local stability in terms of employment and income.

The second option, is attempt to expand the trade area to stabilize the local economy. Knowing your customer or your market share penetration and the customer behavior patterns of the region can assist in adjusting your local goods and services mix to best receive an optimum level of income and employment for your region.

A third option is to simply consolidate what you have in order to strengthen or at least maintain a maximum level of services. At a recent meeting I was at, a board of director member of a business said that he would rather take his firm into bankruptcy than to consider partial consolidation or a merger with a competitor. I guess the point that I am trying to make is that voluntary consolidations of some functions and services in the private sector as well as the public sector can in many cases be mutually beneficial to both firms and might maintain a more—a higher level of local services than if competition had continued and involuntary consolidation occurred at a later time.

The fourth option is simply to do nothing and allow the trends to continue and economically decline as farm numbers in the population base decline. Now that is not optimistic news facing rural communities, but those are the four basic options, and they are, there is only so many ways out of the box. Now, the first three options require some investment of time and money with no guarantee of success. An evaluation of community strengths, weaknesses, opportunities and threats, can assist in this decisionmaking process, and the option selected by each community depends on the local resources, opportunities, leadership, and the values of the community involved. There will be some gainers and some losers as this resource allocation occurs. Some communities may be already beyond help. However, others with sound leadership can turn a trend around.

Let me close by saying that the instability of the world trade and exchange system in the 1970's was the cheapest and the biggest rural development program the midwest had ever seen in our Nation's history, and I think the big question that is facing us today is that should this international stability be allowed to cripple rural America during the 1980's; or should some Government assistance be provided to absorb the adjustment and in order to allow a cushion in rural America to diversify and give it a chance to diversify rural America's economy.

The specific programs that the Government could consider, one option is to, of course, do nothing but allow current policies and trends to continue. The second approach is to assist agriculture and thereby assist rural communities. The third approach is to directly assist rural communities in helping rural communities follow their developed economic development plans.

Let me close by saying that I appreciate the opportunity again, Senator, to be asked to testify to this distinguished group. I would like to point out that SDSU extension has programs in rural development, agribusiness management, and public policy as well as farm finance, marketing, and production management, and to the best of our ability we are going to be out in the hinterland doing our job to best assist our clientele as best we can. And I certainly want to commend you for your attempt to gain greater visibility for the plight of rural America, and your struggle to, and wish you success in taking this viewpoint and this message back to Washington. Thank you very much.

[The prepared statement of Mr. Edelman follows:]

Prepared Statement of Mark A. Edelman

Observations On The Future Of South Dakota Agriculture and Rural Communities

Mr. Chairman, it is my privilege to address your distinguished committee on the profound problems and challenges that are facing South Dakota agriculture and rural communities. First, let me reiterate that my assumed role as an educator is to assist in clarifying the problems, outlining alternatives, and discussing the probable consequences of policy options so that citizens and their leaders have a more informed appreciation of the facts for public decision-making.

Second, it is my observation that our private enterprise and democratic political system has never guaranteed success to those who entered into business. However, upon occasion we have greatly assisted an ailing city, business, or sector of the economy and our society has always provided an opportunity to start over.

The philosophical principal of our society has been to distribute income according to ability above a minimum level of basic need. The debate focuses on defining the line of compromise in this concept. Ever since colonial days, our political leaders have debated this issue: "What should the government do for the people?" and "What should the people do for themselves?"

Having said that, let me divide my remaining remarks into three areas: (1) the nature of problems faced by rural communities, (2) the options faced by rural communities, and (3) government's role in assisting rural communities.

The Rural Community Problem

How should rural communities, which are largely dependent upon agricultural commerce, adjust to their declining farm customer base? A certain number of customers are required for a business or any other rural institution to survive. As a result, many rural communities face increasing prices and/ or declining local services as their customer population shrinks. This, in turn, tends to increase the cost of living and/or reduce the standard of living for remaining residents.

Declining farm numbers is a continuing trend for South Dakota. Census Bureau farm numbers peaked at 83,303 in 1935 and declined to 37,148 in 1982. The state-wide net decline in farm numbers between 1978 and 1982 was 398 farms per year or 1.0% per year according to the 1982 Ag. Census.

As is true for many states a dual trend is emerging in farm numbers. Numbers of farm exceeding 1,000 acres in size have increased as have numbers of farms that have less than 140 acres. The major decline in farm numbers has occurred in the medium size farm group.

Farm numbers are expected to continue to decline, the question is: "How fast?" A 1983 analysis by Professor Janssen and myself at SDSU projected less than 30,000 farms by the year 2,000 simply based on the current age distribution of our farmers and ranchers. We simply have about twice as many that will exiting due to age as we have had entering the industry in our state.

The rate of decline in farm numbers is no doubt affected by the current financial stress in agriculture. Last week, SDSU Professor Schmiesing and I released a survey of agricultural finance conditions as viewed by 53 % of the 346 South Dakota agricultural lenders in November 1984. The lenders indicated their customers' financial position as follows: 14.3% superior 23.1% good, 38.5% average, 16.0% weak, and 8.1% inferior. In addition, 46.9 % of the lenders' farm customers had increased their total debt during the past year. Total debt stayed the same for 34.2% and declined for 18.9%.

While the net impact of financial stress is to accelerate the rate of decline, it must be said that lower machinery and land prices are providing opportunities for some new entrants into agriculture.

Rural Community Options

Rural community decision-makers that are faced with declining farm numbers have four basic community options:

Option 1. Attempt to diversify the regional economy into basic industries that do not depend upon the number of farms in the area; Fostering home grown, as well as outside industry, might provide local stability in employment and income.

Option 2. Attempt to expand the trade area to stabilize the economy; Knowing your customer area, market share penitration, and customer behavior patterns can assist in adjusting the local goods and service mix.

Option 3. Consolidate to maintain maximum services; In a recent meeting, a board of director member of a business said that he would rather take his firm under bankruptcy than to consider partial consolidation or merger with a competitor. The point is that voluntary consolidation of functions and services, in the private as well as public sector, can in many cases be mutually beneficial to both firms and might maintain more local services than continued competition and involuntary consolidation.

Option 4. Do nothing except decline economically as farm numbers and the population base decline.

The first three options require investment of time and money with no guarantee of success. An evaluation of community strengths, weaknesses, opportunities, and threats can assist in this decision-making process. The option selected may vary depending on the resources, opportunities, leadership, and values of the community involved.

There will be economic gainers and losers as a result of the current financial stress in agriculture. Some communities are beyond help, due to lack of resources and opportunity. Others may simply lack leadership. As a result, some communities may remain economically viable, only if community leaders actively address the present situation.

What Can Government Do To Assist Agriculture And Rural Communities?

First, there is no question that government has a role to play in setting our monetary policy so as to promote long run price stability and low inflation. Agriculture and rural communities benefit from stable prices just as other sectors of the economy.

Second, moving toward a balanced budget could possibly reduce interest rates and reduce the exchange value of the dollar which would tend to stimulate exports and reduce imports for agriculture. However, reducing the federal budget deficit may not reduce the value of the dollar as much as some in agriculture may hope. As long as we continue to fight inflation during the 1980's, interest rates must remain above the inflation rate. Assuming all else constant, this implies that we are likely to see a higher valued dollar than we experience during the inflationary 1970s.

Third, the government must decide its future role in farm policy during 1985. We cannot expect to maintain a constant share in world commodity markets with high price supports on top of a strong dollar. Cargill's recent Argentine wheat import caper demonstrated that.

It is true that the largest factor pricing us out of the world market has been the rise in the value of the dollar. However, if the value the dollar does not decline, we must consider lowering supports if we want to improve our competitive position in world trade.

On the other hand, rapid movement toward market oriented policy will result in more farm failures in the short run and larger adjustments for rural communities.

The instability of the world trade and exchange system in the 1970's, was the cheapest and biggest rural development program the midwest had ever seen in our nation's history. The question is should this international instability be allowed to cripple rural America in the 1980's. Or should some government assistance be provided to absorb the adjustment and diversify rural America's economy.

What specific programs could the government adopt to assist rural communities? One approach is to do nothing. A second approach is to assist financially stressed producers in order to slow the adjustment process. Third is to assist rural communities in implementing their economic development plans. Let's take a closer look at the last two options.

What Should Government Do About Financially Stressed Farmers?

Option 1. Let present trends and uncertainties in world production, trade, exchange, and government policy determine the income of individual farmers and ranchers based on their luck and ability to cope with their environment. Let those who do not succeed, rely on their own resources, churches, private charities, community resources, and current government programs to start over.

Option 2. Government helps financially stressed farmers to stay in business through targeted direct financial assistance, self-help risk reduction programs, and/or marketing and financial management training. For example, the SDSU Ag Lender Survey indicated that over half of their farm customers' records were inadequated for financial planning purposes.

Option 3. Government assists financially stressed farmers to start over by assisting in the provision of off-farm employment opportunities, targeted financial assistance to provide for minimum basic needs, and/or targeted educational and training assistance programs geared to new skills or starting another business in the region.

What Should Government Do
About Rural Communities?

Option 1. Let local resources and present trends in economic forces determine growth and decline of communities.

Option 2. Government provides aid targeted to all rural communities in a comparable fashion to unban programs.

Option 3. Government targets aid to rural communities under severe stress in agriculture.

Option 4. Government assists rural regions in developing and implementing economic revitalization plans.

In conclusion, I hope that I have stimulated some thoughts on the challenges ahead. Certainly SDSU Extension programs in rural development, agribusiness management, and public policy, as well as farm finance, marketing, and

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agricultural production management, can assist in making the tough decisions facing many agricultural producers and rural communities under financial stress. In particular, SDSU Economist Tom Dobbs has discussed local development options with many local development groups across the state. The SDSU Agricultural Experiment Station and Census Data Center can provide relevant local information for developing action oriented plans in many of the areas suggested by your rural initiative.

In closing, I certainly want to commend you Senator for your attempt to gain greater visability for the plight of rural America. Your rural agenda is broad and complete. I wish you best success in taking the message to Washington.

Senator ABDNOR. Thank you, Mark, for those very fine comments. I know you are doing all you can to help get the economic conditions in this part of the country turned around. Again, this is the kind of statement we need when we go back to Washington to tell people the way it really is out in rural America. For some reason some of our city cousins and some of our biggest economists don't seem to realize there is a difference between the conditions out in rural America and the urban areas. Our next witness is a gentleman from the University of South Dakota who has done considerable work in Government research. He is going to share with us his observations of South Dakota from a public policy point of view, because we are interested in this area and we are doing well. It is Russell Smith. Russell we are very happy to have you here today to give us your thoughts.

STATEMENT OF RUSSELL L. SMITH, DIRECTOR, GOVERNMENTAL RESEARCH BUREAU, UNIVERSITY OF SOUTH DAKOTA

Mr. SMITH. Thank you very much, Senator. Let me say it is always amazing and heart warming to see the interest that South Dakotans have in their State and local governments. I think the turnout at the meeting today is indicative of that interest. Before I make my remarks I do want to congratulate Senator Abdnor and his committee on their ambitious program and their ambitious hearing schedule for the coming 12 to 18 months. I think the future of rural America, the future of rural South Dakota depends very much upon the findings of your committee and their recommendations.

I will keep my comments brief as I was instructed to do. I do have a prepared statement which I will submit, and I would be happy to provide copies to people who would like the prepared statement if you will give me your name. As a political scientist and a person who is in a position at the university where I am concerned with public policy processes, and governmental structures for dealing with policy processes, I am interested in how the rural economy changes in South Dakota as rural economy is impacting our local government systems.

As the economy of rural America changes, as the economy of rural South Dakota changes, there will be, there have been population and resource base changes. These bring new problems and new opportunities. It is important to look at and try to assess the extent to which our local governments are facilitating and making adaptive responses to this new environment. These governments can facilitate by trimming back, by shedding old functions that are no longer needed, and by taking on new functions in different forms. Likewise these local governments can hinder this process of adaptive response by doing nothing.

To stimulate my own thinking about this area, and to stimulate dialog with regard to local government functions and changes to a changing rural South Dakota economy, I have started looking at how the rural economy effects local government, and I have also tried to start beginning a process of identifying the types of responses that local governments might take. My research is in progress. My comments are tentative, there is a great deal of work I want to do. There are a great number of people I want to talk with. I do want to make four points though.

As Mark has indicated, the number of farms is declining in the State and will in all likelihood continue to decline. It is important to realize that traditionally the rate of decline in farm numbers in South Dakota has been slower than the national average. More recently, since 1977, the decline has speeded up, has sped up. While we don't have good information, based upon what Mark and his colleagues are finding at SDSU through their survey work, the decline is in all likelihood continuing to accelerate as the farm economy undergoes additional stress.

It is also important to understand the number of South Dakota farmers who rely upon agriculture as their primary occupation is extremely high. It is still around 80 percent. This is higher than the national average which I believe is what, around 60, or 51, slightly over 50 percent I believe. While we rely upon farming more so than other States on the average for our occupations, primary occupation and earnings, our reliance is declining at a rate faster than the national average. To me these trends indicate a worsening farm economy in the State. These trends indicate significant impacts in the future of our rural communities.

I have tried to look at the relationship between farm decline and community and county population decline, and there is a significant substantial relationship between the two. As farms decline, county population declines. The primary exception to this is those counties with an urban community over 2,500 population, and there are 21 counties in that category. Those counties are able to fend off population declines that result from the decline in farm numbers. Counties with no urban center are not able to counter the decline in farms. They lose population.

Our small towns are also losing population as the farm numbers decline. Towns of fewer than 2,500, regardless of whether they are in a county with an urban center or not, have lost population since 1960. Towns under 500 are in the worst stress of all, roughly around 70 percent of those communities having lost population since 1960.

It is also important I think to keep in mind not only that as farms decline, counties and their communities decline, but we have another problem in this State. It is not just the problem of decline, it is a problem of small size. The majority of our counties lost population from 1960 to 1980; 75 percent of our counties today have fewer than 10,000 people in them, and a third of our counties have fewer than 5,000 residents. The problem of small size makes for relatively inefficient governmental service delivery.

South Dakota has long been regarded as one of the most overgoverned States at the local level in the country. In the 1960's we shared the distinction or we had the distinction, we didn't share it, we had the distinction of having the most local governmental units per person or per 1,000 people of any State in the country. Today we are number 17. We have a double problem, a problem of a large number of governmental units, and those numbers are static even though population is declining, and our governmental units are relatively inefficient in delivering services.

The burden, the financial burden of local government in this State for many years was greater than the national average. If you look at the proportion of the personal income going to local Government services in this State, in 1967 I believe it was around 105 percent of the national average. Today it is below that national average, but State government in South Dakota has picked up much of that local financial burden. Local government's revenues in this State in 1982, around 22 percent of those revenues were derived from State aid. So if we look at State and local government financial burdens in this State we see that we pay relative to the rest of the country, around 105 percent of the national average in terms of personal income. Well, what I see is an extraordinarily large number of governmental units that are small and they are relatively inefficient.

What can we do about it? There are two primary strategies I think that I see from a governmental perspective. One is to promote structural change. Multicounty consolidation, city/county consolidation in some cases. Some of our smaller communities may want to think about disincorporation. We may have to also think about and should think about transfer of functions from the counties to the State, and from cities to counties. The record at the national level and in South Dakota is not very optimistic with regard to structural change.

We like our small governmental units, we feel closer to them, we feel that they are more accessible, we also link large size with higher taxes. I think that is a false assumption, but most of us share that assumption. I don't think we will see a great deal of initiative from local governments and their citizens. I think what we probably will be looking at is State leadership in this area. I am not sure where that leadership will come from or in what form it might come.

The second option is what I guess I would call local self-help, and in that category I include strategies such as cooperative regional service delivery, alternative revenue raising mechanisms, and regulatory changes that reduce the demand for Government services. I also think that we need to think, pay more attention to the increased use of volunteers. Volunteerism has been the backbone of local government in this country for years, and I think we need to renew attention to that.

In responding to the need for change in local government systems, I think we have to place the greatest burden at the State and local level. There is not a great deal the Federal Government can do to aid this process. There are three things, though, that I would offer at this point. First I think the Federal Government can continue to strengthen the roll of State governments as policymakers in this country. That has been underway for several years. I would like to see it continue. Block grants have put States in the driver's seat, so to speak, and have reversed the several decade process of national local linkages.

Now the national government is focusing more on States and restoring them to their position of influence over local governments. So block grants can continue to strengthen States. It can continue to help them be leaders in addressing State problems. State and local problems. Second, the Federal Government I think can best aid rural areas, and let's face it, the best policy for most rural citizens and for those communities and counties that are threatened with population decline, because of the decline in farms, the best policy for those people and those communities and counties is in a agricultural policy that restores profitability to the farm sector.

Finally, as these communities undergo adjustment and adapt to these changes, the Federal Government can continue to provide training and other rural development programs and resources that can help all of us. All too often, however, these programs are not targeted adequately, and this is in large part a function of the fact that we know all too little about what is going on in rural America. As we have, as rural America has been lowered in terms of its importance, our data gathering and information has also been reduced. Thank you very much Senator for the opportunity to provide these comments.

[The prepared statement of Mr. Smith follows:]

Prepared Statement of Russell L. Smith

"Adapting Local Government to A Changing Rural South Dakota"

Introduction

Since the early 1970's identification of the reversal of the long-standing pattern of rural-to-metropolitan migration, much attention has been focused on the status and condition of nonmetropolitan America. This renewed interest was welcomed by rural observers, residents, and elected officials alike. As a result of this attention, however, there has been a good deal of "blurring" of rural issues. For example, much of the recent writing on nonmetropolitan community government and development focuses on the nature and management of growth in oil and coal "boomtowns," retirement and recreation centers, and rural places (communities with fewer than 2,500 people) within or adjacent to metropolitan areas. Issues of planning for growth, developing public service delivery systems, local government management and decision making capacity, and newcomer-oldtimer conflicts are treated as among the most critical topics. While such topics are important, they are most relevant for communities in the South, Southwest, and West, where growth is most likely to be sustained in nonmetropolitan areas.

There is, however, another type of nonmetropolitan "community"—the rural county with no towns over 2,500 population, and municipalities of fewer than 2,500 residents—the Census Bureau's generally accepted dividing line between "rural" and "urban" communities. These communities have been, and will in all likelihood, continue to decline in both population and resources. This paper focuses on these communities and their local governments in South Dakota. The long-term trend of decline in the family-farm in this state is not likely to be halted. The consequences of this decline are enormous, particularly for the hundreds of rural South Dakota communities and their counties which were established during the banner years of agriculture in this state. The local government "carrying capacity" of South Dakota is diminishing. At the same time the local government carrying capacity of South Dakota is being eroded, the structure of local government is changing all too little. New and innovative responses to changing rural community contexts is needed in South Dakota and should be seen as a vital part of any rural development strategy. Likewise, new efforts to help existing and emerging South Dakota "growth centers" need to be undertaken.

After reviewing the linkages between farms and communities, the paper evaluates the "carrying-capacity" of the state for local government. This capacity is contrasted with the current system of local government. The divergence of carrying-capacity and the current local government "load" argue for a renewed look at options for change. The final section of the paper presents some courses of action for the future.

Farm-Community Linkages

Farms are a diverse group — they differ by acreage; nature of the agricultural enterprise; who controls resources and makes operating decisions; who does the work; and what the goals and aspirations of the farm and its operators are (Larson, 1981). These features, as well as the total number of farms in an area, play a crucial role in structuring the nature and welfare of rural non-metropolitan communities and their surrounding countryside.[1] This section profiles the linkages between farms and rural communities. A grasp of farm-community relationships will help place the population and economic erosion of much of South Dakota in proper perspective.

Some Numbers

A good place to start is by looking at the economic importance of farms for rural communities in America. Farming, to no one's surprise, is big business for such communities. Underscoring this notion is the fact that the share of farm income used to purchase farm inputs has increased over time. In 1977, for example,

[1]In a related sense, the services and economic and social opportunities found in rural communities affect the life of rural farm people, although this is not the primary focus of this paper.

90 percent of America's $99 billion cash income from farming was spent for farm production purposes (ESCS, 1979:31). This translates into an average expenditure of $32,807 per farm for production inputs. After farm expenses were paid out, a net income of $19.8 billion remained from farming operations in 1977 (ESCS, 1979). This includes $8.5 billion of non-money income ($7.2 billion for the rental value of farm dwellings, plus allowances for the value of farm products consumed by farm households). Net farm income per farm in 1977 was $3,800.

Income from off-farm jobs held by farm operators and their family members, as well as from other non-farm sources, added $31.9 billion in income. This resulted in an average income of $18,692 for farm operator families. Included in this total are $11,781 from non-farm sources, $3,791 in net cash income from the farm and $3,120 in non-money income (ESCS, 1979:32, 39, 59).

While farm operators and members of their families are generally viewed by the non-farming population as comprising the farm workforce, almost one-third of farm labor is drawn from non-family members. The number of persons hired in 1977 totaled almost 2.4 million, and they completed 254 million man-days of farm work. Perhaps most important is that the bulk of these workers are drawn from the local community and area — only 7 percent traveled overnight from their usual place of residence (Rowe, 1979:8). Almost 80 percent of these workers lived off the farm, compared with 35 percent in the 1940's.

Farms and Communities

The past four decades have brought a declining number of farms. This has led to fewer opportunities to enter farming as either an owner or a tenant, and it has led to a thinning out of the farm population — the farm population has become less dense as the average acreage per farm in the U.S. rose from 175 in 1940 to 440 in 1982. While the rural community effects of such a change seem easy to envision, the impacts are not uniformly one of decline. Factors such as the availability of non-farm job opportunities in the area or community for the displaced farm population, the level of gross and net farm income for those remaining in farming, the relative importance of farming in the community's economy and population, and net migration into and out of the community can reduce negative impacts of structural changes in agriculture.

In general, the proportion of workers engaged in agriculture in an area is related to out-migration patterns; the higher the agricultural workforce the higher the net out-migration (Bowles, et al., 1977:225-239). For example, in the North Central Census region — the region containing South Dakota — counties with 50 percent or more of their workers in agriculture in 1960 had a net out-migration between 1960-1970 of 19 percent of total popualtion, and 66 percent of males between the ages of 20 and 24. Counties with less than 10 percent employed in agriculture had virtually no loss through net migration for total population, and only 6 percent for males, aged 20-24 (Bowles, et al., 1977).

Typically, this net out-migration is reflected in a loss of total population. Beale (1976) found that counties with 30 percent or more of the workforce employed in agriculture had an average 10.7 percent loss of population. In this regard, it is particularly noteworthy that the smaller towns were the ones most likely to be negatively affected where out-migration resulted in population loss. In the North Central states, towns with a population of less than 500 were less likely to have a stable or growing population than were nonmetropolitan towns with more than 500 residents (Beale, 1974:5-7).

As the number of farms declines, and as the size of farms increases, the number of farms tributary to a given community shopping and trading center typically declines. This, in turn, generally reduces the volume of demand for goods and services supplied by the community, thus reducing local employment opportunities and revenues which are tied to the local consumer sector. Additional community population decline has been found to be associated with these changes (Larson, 1981). Such changes in trading areas don't always show up quickly, however. Initial farm declines in Nebraska didn't translate into business declines in towns; new tributary areas and shopping patterns emerged. Over time, however (ten years), population declines translated into small city trade declines as larger towns increased their market area.

While the non-farm employment multipliers provided by farm employment are subject to controversy (as in other sectors), in North Dakota, a loss of 3,700 on-the-farm workers associated with farm enlargement and reorganization produced a 5,722 decline in non-farm employment (Schreiner, 1972:341). Changes in farm size and structure can also affect the class and occupational structure of communities since large farms are more dependent upon hired labor.

Studies have also found that a predominance of small farms in an area leads to greater income generation in small communities. While the net income of the families operating these small farms is lower (Larson, 1981:162), the farmers owning large-scale farms are more likely to shop away from their hometown. This typically results in reduced selection offered by merchants to remaining customers (Nesmith, 1963:178).

Changes in land ownership and control of resources and decisions also impact communities. Areas of high farm tenancy have been found to be different from areas of high ownership, even when factors such as the life cycle of the farm family were controlled for. Larson, for example, notes that as tenancy increases, the social organization (e.g., voluntary group membership) of communities tends to be weaker and less progressive (1981:163). Rodefeld analyzed the impact of farm structure on a variety of community facets. Family farms — farms owned by the operator — were found to have the highest levels of job and residential stability of workers, the highest average net family income, the largest average net worth, the greatest involvement in community voluntary associations, the largest contributions to churches and the highest voting turnout in local elections (1978:159-177). Industrial farms — farms with low levels of land ownership and labor provided by the manager (who may be hired or be a renter) — performed thelowest on the above dimensions. The family farm purchased a higher percentage of goods locally, when available. Corporate or industrial-type farms have been found to purchase fewer inputs from local sources, and be less likely to rely on local financial institutions (Rodefeld, 1978:205-216).

As can be seen, the links between farms and rural communities are numerous. At the turn of the twentieth century, hundreds of small towns were established through this nation's farmland. The growth of agriculture provided the fuel for community growth. Today, the decline of the family farm — the primary agricultural operation in the United States and South Dakota — is contributing to the decline of rural towns throughout nonmetropolitan America. The magnitude of the impact of the declining farm economy upon rural nonmetropolitan communities will vary, however. The dependence of the community and area economy upon agriculture, the availability of alternative jobs for the displaced farm population, and the level of farm income for those remaining in farming are important in this regard. Particularly devastating are population decline and net out-migration, particularly among the young adult generation — the group which provides the future leadership for communities needing to make difficult choices. In the next section, some of the community dimensions of the declining farm economy in South Dakota are highlighted. Of particular interst is the current local government "carrying-capacity" of South Dakota. It is through the carrying-capacity notion that the need for innovative action with regard to local government can be most clearly seen.

Changing Community Contexts in South Dakota

A Changing Agricultural Context

As with the nation, the number of farms in South Dakota has been in steady decline since the 1930's. In 1935 — the peak year for the number of farms in the state — there were 83,303 farms. Since then, the number of farms has declined by 46,155 to 37,148 in 1982 (Bureau of the Census, 1982:1). It is interesting to note, however, that the rate of farm decline has usually been slower in South Dakota than in the rest of the country. For example, between 1950 and 1982, the total number of farms in the U.S. declined by 58.4 percent, while in South Dakota the decline was 44.1 percent during the same time period. More recently, the loss of farms in South Dakota has been above the U.S. average. During the 1974 to 1982 period, the number of farms declined by 13.2 percent in South Dakota (42,825 in 1974 to 37,148 in 1982) and 3.2 percent for the U.S. as a whole (Bureau of the Census, 1982:1).

Declining farm numbers have led to increased farm acreage in South Dakota. From just over 445 acres in 1935, the average size of South Dakota farms rose to 1,179 acres in 1982 (Bureau of the Census, 1982:1). The tenure of farm operators in South Dakota has remained fairly constant in recent years. For both 1974 and 1982, for example, roughly 40 percent (41 percent in 1974 and 40 percent in 1982) of all farms were operated by the full owner. For these same two years — 1974 and 1982 — 14.8 percent and 16 percent of the farms were operated by tenants (Bureau of the Census, 1982:1). Just over 87 percent of South Dakota's farms were of a family organization in 1982, and only 2.4 percent were operated by a corporation. The number of farms where the operator's principal occupation is farming has remained about 80 percent (81.4 percent in 1982). However, while the proportion of South Dakota farm operators who rely on farming as their primary occupation has always been much higher than the U.S. average, the state's decline has exceeded that of the U.S. in recent years. For example, between 1974 and 1982, the number of farm operators relying on farming as their principal occupation declined by 17.8 percent in South Dakota, but only 13.5 percent for the U.S. as a whole.

Although not exhaustive in any sense of the word, this brief picture of

South Dakota agriculture contains mixed signals. While the loss of farms in the state has generally been slower than that of the U.S. as a whole, the rate of decline has accelerated in recent years. In spite of this trend, the proportion of farm operators who rely on farming as their primary occupation remains exceptionally high in comparison to U.S. averages. This must be tempered, however, with the fact that the proportion of South Dakota farm operators who can rely solely on their farm for their livelihood is declining at a rate that is greater than the rate for all farm operators in the U.S.

In summary, while the farm tenure and principal occupation data indicate a support base for small communities in South Dakota, the seeds of change continue to sprout. In fact, it is very likely that the accelerating national and international restructuring of agriculture and the variability of South Dakota's weather are combining to possibly overcome the factor which has traditionally kept farmers on the farm in South Dakota — the lack of alternative opportunities. Increasingly, this barrier is not as important. The result may be increased out-migration from agriculture-dependent areas, population decline and crippled communities. In the next section, rural area and community correlates of farm decline are reviewed.

Community Impacts of a Changing Agricultural Environment

1. Population

Almost one-half o the counties (44 percent) in South Dakota lost population during every decennial period from 1930 to 1980. More recently 71.2 percent (N = 47) lost population during the 1960-1980 period, although the proportion of counties with population declines fell to 64 percent (N = 42) for 1970-1980. Fifty of the state's 66 counties experienced net out-migration in both the 1960-1970 and 1970-1980 time periods (Riley and Baer, 1981:7).

Population decline has been so substantial across much of the state that

24 of the 66 counties (36.3%) in South Dakota have fewer than 5,000 residents. Six more counties, for a total of 30, have 5,500 or fewer residents. Eight (33.3%) of the 24 counties under 5,000 population have fewer than 2,000 residents, while almost 75 percent of the state's counties now have a population of less than 10,000.

Earlier, it was noted that changes in the structure of agriculture, notably the decline in the number of farms, has been found to be related to population decline in various regions of the U.S. Table 1 reports the relationship between the decline in total farms and total population for South Dakota counties during the 1960-1980 time period.

Table 1

Decline in Farms and County Population in
South Dakota, 1960-80

A. Farm Decline and County Population Change, All Counties:

1959-82 Percent Decline in Farms	1960-80 Percent Population Loss: County Above Median	1960-80 Percent Population Loss: County Below Median	Total
County Above Median	21 (65.6%)	11 (34.4%)	32 (100%)
County Below Median	11 (32.4%)	23 (67.6%)	34 (100%)

B. Farm Decline and County Population Change, Urban Counties:

1959-82 Percent Decline in Farms	1960-80 Percent Population Loss: County Above Median	1960-80 Percent Population Loss: County Below Median	Total
County Above Median	2 (22.8%)	7 (77.2%)	9 (100%)
County Below Median	2 (16.7%)	10 (83.3%)	12 (100%)

C. Farm Decline and County Population Change, Rural Counties:

1959-82 Percent Decline in Farms	County Above Median	County Below Median	Total
County Above Median	19 (82.6%)	4 (17.4%)	23 (100%)
County Below Median	9 (40.9%)	13 (59.1%)	22 (100%)

Source: Compiled by the author from the Census of Agriculture, South Dakota, 1959, 1982; Census of Population, South Dakota, 1960, 1980 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census).

As can be seen by looking at Part A of Table 1, roughly two-thirds of the counties above the median level of farm decline for all counties were also above the median level of population loss for all counties in the state. Likewise, slightly over two-thirds (67.7%) of the 34 counties below the median level of farm decline were also below the median level of population loss for the state. To put this relationship quite simply, counties which had rather large declines in the number of farms during the 1959-1982 period also tended to have rather high population losses. Counties with lower levels of farm losses had lower population losses.

It is interesting to speculate on the possible role of urbanization in softening the impact of declining farm numbers upon area population loss. Parts B and C of Table 1 portray the relationship between farm losses and population losses for two groups of counties. The first group (see Part B) encompasses counties having an urban community within their borders (a municipality with population of 2,500 or more). The second group (see Part C) is comprised of counties with no urban center. As can be seen, the impact of urbanization upon the farm decline-population loss relationship is quite dramatic. Regardless of whether county farm losses were above or below the median, counties with an urban community experienced lower than the median population losses.

For rural counties—counties with no community of 2,500 population or more—82.6 percent of the counties above the median for farm decline also had population losses above the median for all counties (see Part C, Table 1). Although not as substantial, the proportion of rural counties below the median level of farm decline who also had population losses above the state median is still rather sizeable (40.9%, compared with 16.7% for urban counties).

In summary, farm declines generally translated into county population declines during the 1960-1980 time period in South Dakota. The presence of an urban center in a county experiencing substantial farm declines, however, lesses population losses. This is probably a function of the fact that these population centers provide alternative employment opportunities for displaced farm families and attract in-migrants from other areas, thus off-setting population out-migration induced by farm declines.

Municipalities, just as counties, should be impacted by the decline in farms, although the effects are not likely to be as dramatic as at the county level because of the small number of farm operators living in towns. Table 2 provides information to help highlight the recent growth dynamics of South Dakota rural municipalities in the face of declining farm numbers. To explore the farm-community population linkage, the growth trend for municipalities ("declining" or "growing" from 1960-1980) is related to whether the county in which the city is located was above or below the median level of farm decline for all counties in South Dakota from 1959-1982.

Table 2

Decline in Farms and Population of Towns Under 2,500
in South Dakota, 1960-80

1959-82 Percent Decline in Farms	1960-80 Municipal Population Trend: Municipality Declined	Municipality Grew	Total
Municipality in a County Above Median	110 (65.5%)	58 (34.5%)	168 (100%)
Municipality in a County Below Median	48 (41.4%)	68 (58.6%)	116 (100%)

Source: See Table 1.

As can be seen, farm decline is moderately associated with community population change. Just over 65% of the rural municipalities located in counties with a farm decline above the median level for the state also experienced population declines themselves from 1960-1980. For rural municipalities in counties with farm losses below the median for all counties, the percentage recording population growth from 1960-1980 was 58.6 percent. Controlling for urbanization influences—the existence or absence of a city of 2,500 population or more in the same county—does not alter this basic relationship. The evidence, then, is fairly clear; rural, small towns tend to decline in population as the number of farms decline. These small cities are just not able to counter the trends of farm and county population decline in the same way that cities of 2,500 and larger are able to. Although the data are not presented in Table 2, towns of fewer than 500 residents were found to have lost population from 1960-1980, regardless of farm declines. Overall, 76.1 (N=150) percent of the 197 towns under 500 population in 1960 declined in size.

2. Economic Impacts

Population loss is typically accompanied by a variety of economic changes. As indicated earlier, the primary changes are a loss in shopping goods trade and employment. Such changes can, in turn, lead to lower sales tax collections and resources for the rural county or community. While a detailed analysis of the county and community economic impacts of rural population loss in South Dakota is beyond the scope of this paper, several changes can be highlighted. In general, the information points toward reduced levels of economic and employment activity in rural counties and communities, and an enlarged role for the urban counties and communities of South Dakota.

Table 3 containes summary data on retail sales and total employment for the urban and rural counties of South Dakota. Because the farm and population decline analysis presented earlier focused on the 1960-1980 period, and because economic changes accompanying population change are not expected to take effect immediately, retail sales and employment data for the 1972-1982 period are used. Retail sales increased by 127.2 percent for the state as a whole between 1972 and 1982. Retail sales in the urban counties grew by 137.2 percent, while the growth rate for rural counties was 89.9 percent for the ten year period. Most telling, however, is the change in total share of the state's retail sales for each group of counties from 1972-1982. Rural counties saw their share reduced from .212 to .177, a decline in share of 16.5 percent. Urban counties, on the other hand, saw their share of retail sales for the state increase by 4.4 percent from .788 to .823.

Table 3

Summary Retail Sales and Total Employment Data for South Dakota Urban and Rural Counties, 1972-82

Retail Sales:

Year		Urban Counties	Rural Counties	Total
1972	$ Amount	$1,037,138	$278,529	$1,315,667
	Sales Share	.788	.212	1.000
1982	$ Amount	$2,460,268	$528,884	$2,989,152
	Sales Share	.823	.177	1.000

Total Employment:

Year		Urban Counties	Rural Counties	Total
1972	No. Jobs	199,316	99,259	291,575
	Job Share	.684	.316	1.000
1982	No. Jobs	235,213	89,162	324,375
	Job Share	.725	.275	1.000

Source: Census of Retail Trade, 1972, 1982 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census); Bureau of Economic Analysis, U.S. Department of Commerce.

Changes in employment were similar to those for retail sales from 1972 to 1982. Total state employment grew from 291,575 in 1972 to 324,375 in 1982. This represented an increase of 11.3 percent. Urban county employment grew by 18.1 percent, while rural county employment fell by 3.3 percent. The urban county share of total state employment increased by 5.9 percent from .684 in 1972 to .725 in 1982. The rural county share of employment fell from .316 to .275, a decline of 13.0 percent.

All in all, then, total employment is declining in the 45 counties in the state with no city over 2,500 population. The share of retail sales captured by this group of counties is also declining. The 21 urban counties, however, are increasing their total number of jobs as well as their share of retail sales.

The Reduced Local Government-Carrying Capacity of Rural South Dakota

Thus far, a link has been established between declining farm numbers and declining population in the 45 rural South Dakota counties having no municipality of 2,500 or more population, and in the small towns under 2,500 residents in these same rural counties. On the other hand, the "urban" counties in South Dakota—those counties with cities over 2,500 population— and even their smaller cities have been found to be generally growing. The trend of population decline in the rural counties has been accompanied, among other things, by declines in retail sales shares and total employment. These trends indicate that the human and economic resource base of many of South Dakota's rural counties and cities under 2,500 population has been eroded in the past few decades. For many counties, this decline in resources—whether they be human or financial— has been going on unabated for four or more decades. Because of the diminished resources of these areas, it is important to ask what the current local government load (in terms of numbers and costs) is in South Dakota, relative to other states. If the burden of local government is greater in South Dakota, it is important to ask how the load might be reduced. Structural and non-structural changes in local government not only can enhance efficiency and effectiveness, but such changes can bring the system of government in-line with the resource base of the rural areas of the state at the same time.

The Carrying Capacity Notion

The carrying capacity concept is used to guide the analysis of local government burdens in South Dakota. The idea of carrying capacity was first developed by ecologists to calculate the wildlife population that could be sustained indefinitely by the resources in a given natural area. The concept has been used more recently in urban and regional studies to estimate the relative populations and activities that can be maintained within the constraints impaired by natural resource limitations. ' earliest applications of carrying capacity to the management of urban and regional system date from the late 1960's and early 1970's and have been applied to transportation, voter, air quality and a host of other technical issues.

While there is no general agreement among theorists on the exact meaning of the concept or the most effective methods of its application to real communities, the notion of carrying capacity can be useful to citizens and policy makers in their thinking about the relationship between people, their activities and resource limits, whether they be environmental or financial.

Because local government are seen as "critial systems" which deliver necessary services and rely on public funds to operate," the carrying capacity concept leads us to ask whether the number and costs of local governments in South Dakota are consistent with the human and economic resources of the bulk of the state's rural areas. Full application of the capacity notion to local government is difficult. There are no generally accepted standards for determining the numbers, types and costs of local governments which a given area can support. A number of factors such as regional and local history, and the nature of problems and government functions needed to meet them are important. The number and costs of local government for a given area can be standardized by population or income, for example, and comparisons made with other regions and areas of the country. Such comparisons permit the analyst to say whether a given area has more or fewer governments on a percapita basis than other areas. Likewise, costs can be compared (as a percentage of personal income, for instance). It must be remembered, however, that whether or not the number and costs of local governments are seen as excessive is not just a function of the resource base, but is also a function of the preferences of citizens as well.

The Local Government Load in South Dakota

South Dakota has long been viewed as among the most "overgoverned" states at the local level. In 1967, Farber noted that "...South Dakota had the dubious distinction of being the most governed state in the United States; there were fewer persons per unit of government in South Dakota than in any other state—192 persons per unit." (Farber, forthcoming:8) This position has been lost since 1967, primarily because of school district reorganization.

In large part, the number of local governments is a legacy of ambitious, early state leaders. When the state constitution took effect in 1889, state leaders envisioned a rapidly growing state. This was a reasonable assumption at the time; population had doubled between 1880 and 1890, and grew by another 67 percent by 1910. In 1919, South Dakota had the highest per capita income level in the United States. Since those early days, the basic structure and number of local governments in the state (with the exception of school districts) has remained essentially the same.

For both the United States and South Dakota the number of county, municipal and township governments has remained roughly the same for many years. Table 4 contains information on the number of U.S. and South Dakota local governments for the 1957-1982 period. While there have been large reductions in the total number of local governments, the primary changes have come in two forms, and South Dakota is no exception. The first has come in the form of school district reorganization, with the number of school districts declining by 94 percent in South Dakota during the 1957-1982 time period. For the U.S. as a whole, the comparable change is 70.6 percent. The second significant component of local government change lies in the substantial growth of special districts. The number of special districts in the U.S. rose from 14,405 in 1957 to 28,588 in 1982 (98.4% increase). In South Dakota, special districts increased from 69 in 1957 to 199 in 1982 (188.4 percent increase). During the 1957-1982 period, the total number of local governments in South Dakota declined by 63.2 percent. For the U.S., the decline was only 19.6 percent. Despite significant change in total local governments, South Dakota continues to have more local governments than the average state in the U.S.

Table 4

Number and Type of Local Governments for the U.S. and South Dakota, 1957-82

Type of Local Government	1957 U.S.	1957 SD	1967 U.S.	1967 SD	1977 U.S.	1977 SD	1982 U.S.	1982 SD
Counties	3,047	64	3,049	64	3,042	66	3,041	66
Municipalities	17,183	306	18,048	306	18,862	311	19,076	312
Townships	17,198	1,080	17,105	1,050	16,822	1,010	16,734	996
Special Dist.	14,405	69	21,264	106	25,962	148	28,588	199
School Dist.	50,446	3,288	21,782	1,984	15,174	194	14,851	196
Total	102,328	4,808	81,248	3,510	79,862	1,727	82,290	1,767

Source: Census of Governments, Governmental Organization, 1957,1967,1977, 1982 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census).

Summary information on the numerical burden of local governments in South Dakota and the United States is presented in Table 5. Looking first at the number of local governments per 1,000 population, South Dakota constantly has had more local governments per 1,000 people than the U.S. average. In 1957, South Dakota had 7.5 units of local government per 1,000 population, and in 1982 the rate was 2.6 per 1,000 population. The 1957-1982 decline of 30.0 percent was less than that for the U.S. (-32.9%) and was almost totally a function of school district reorganization. In 1957 the U.S. averaged .76 local governments per 1,000 population. In 1982 the number was .36 per 1,000 population. Again, because of school district reorganization the number of local governments per county area has been reduced in South Dakota from 75.1 in 1957 to 27.6 in 1982, a 63.2 percent decrease. As can be seen, the number of local governments per county area in South Dakota is now comparable to the U.S. average.

Table 5

Summary Information on the Numerical Burden of South Dakota Local Government

Indicator	1957 U.S.	1957 SD	1967 U.S.	1967 SD	1977 U.S.	1977 SD	1982 U.S.	1982 SD
Local Govts. Per 1,000 Population	.76	7.5	.51	5.3	.42	2.6	.36	2.6
Local Govts. Per County Area	33.5	75.1	26.6	54.8	26.2	26.9	27.1	27.6
Average Population Per Municipality	5,630	1,130	6,499	1,300	7,251	1,360	7,395	1,407
Average Population Per County	43,868	10,015	51,898	10,437	62,398	10,390	67,024	10,500

Source: Census of Governments, Governmental Organization, 1957, 1967, 1977, 1982 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census).

In 1957, the average U.S. county contained over four times the population of the average South Dakota county—43,868 compared to 10,015. By 1982, this disparity in county average population had increased to a 6.3:1 ratio, with the average South Dakota county having only 10,500 residents. During this same time period, the average South Dakota municipality's population increased by 24.5 percent from 1,130 in 1957 to 1,407 in 1982. This increase is primarily a function of the growth in a small number of communities over 2,500 population, however. The proportion of South Dakota municipalities with a population of fewer than 1,000 has remained around 80 percent since 1957. Likewise, the proportion of the state's municipalities in the 1,000-2,499 population range has hovered around 11 percent of the total. In 1982, 91.3 percent of South Dakota municipalities had fewer than 2,500 residents; this contrasts with a U.S. average of 69.6 percent.

Table 6

Local Government Direct General Revenues as a Percentage of Personal Income, 1957-82

	1957	1967	1977	1982
United States Avg., All Local Govts.	4.1	10.2	12.3	12.9
South Dakota	5.4	10.7	10.9	11.2

Source: Governmental Finances, 1957, 1967-68; 1976-78; 1982-83 (Washington, D.C.: U.S. Department of Commerce, Bureau of the Census)

But what of the financial burden placed upon South Dakota's residents by local government? To help address this dimension of the local government load, Table 6 presents information on local government direct general revenues as a percentage of personal income. Personal income is used as a basis for comparison since South Dakota's per capita personal income level has traditionally lagged

U.S. per capita personal income. Because of this lower income, local government in South Dakota tends to spend less on a per-person basis than the average state. However, because incomes are lower in South Dakota, this lower expenditure level may take a larger bit out of the typical South Dakotan's earnings. As can be seen, in Table 6, local government expenditures in the state comprised a larger percentage of the personal income than the U.S. average for all local governments in 1957 and 1967. In 1957, local government spending was 137 percent of the U.S. average percentage; in 1967, this had fallen to 105 percent of the U.S. average. Since 1967, the percentage of the average South Dakotan's personal income going to local government expenditures has gallen behind the' S. Although the percentage increased in an absolute sense from 1967 to 1982, the "burden" relative to the average local government burden in the U.S. has improved. In 1982, the proportion of personal income going to local government expenditures was only 87 percent of the U.S. average for all local governments. However, during the same year, per capita personal income in South Dakota ($9,666) was 87 percent of the U.S. average ($11,107).

While the financial burden placed upon South Dakotan's by local government would appear to be easing, this may be a false picture. During the same time period, the scope of South Dakota state government was expanding, relative to that of local government. Using data on financial responsibility, service distribution and personnel distribution as criteria for determining the extent of state centralization, Stephens has found that South Dakota has become more centralized since 1957 (See Table 7). Perhaps most interesting is that South Dakota's rate of increase for the composite state centralization score has been been more rapid than the U.S. average (23.6% and 20.0%, respectively). Looking at the individual dimensions of centralization also provides some interesting insights. Centralization of financial responsibility and service delivery increased by 21.7 and 37.1 percent, respectively during the 1957-1982 period. The respective increases for all states in the U.S. were 12.7 and 20.5 percent.

Table 7

Changes in State Government Centralization for South Dakota and All States, 1957-82

	South Dakota	Average, All States
Financial Responsibility:		
1957	49.8	55.7
1969	56.0	60.9
1977	60.4	62.5
1982	60.6	62.8
Service Delivery:		
1957	49.0	44.0
1969	56.0	49.0
1977	58.0	52.0
1982	67.2	53.0
Personnel Distribution:		
1957	48.5	41.6
1969	47.5	44.8
1977	54.7	48.1
1982	54.4	53.8
Composite Score:		
1957	49.1	47.1
1969	53.2	51.5
1977	57.5	54.2
1982	60.7	56.5

Source: G. Ross Stephens, "State Centralization and the Erosion of Local Autonomy," Journal of Politics 36 (February, 1974): 52-66; and from data supplied to the author by G. Ross Stephens for 1982.

The Practical impact of this is that South Dakota state government has helped local governments, thus reducing the financial burden of local government. In 1982, state aid to local government accounted for 22.9 percent of total local government revenues in the state (Bureau of the Census, 1984: 72). This also means that the proportion of personal income going to state and local government direct general expenditures is important in considering the burden of local government upon rur' areas. For every year since 1957, the proportion of personal income going to state and local government expenditures in South Dakota has exceeded the U.S. average. From a high of 133 percent in 1957, the proportion of the U.S. average has dropped to 105.6 percent in 1982 (ACIR, 1984: 16).

Sorting Out Things

Although South Dakota is no longer the most governed at the local level, the number of local governments in South Dakota is still seven times the national average. The existence of a large number of local units in conjunction with a small population base means that many general purpose governmental units— counties and municipalities— are so small that economies of scale and other service delivery innovations can't be taken advantage of. This results in a higher than average proportion of personal income being used to support local governmental services. While the burden of local government relative to personal income has fallen below the national average in recent years, this is primarily the result of state assumption and funding of certain local government services.

At this point in time, then, the number and costs of local governments in this state are excessive, relative to national averages. Such a conclusion is a conservative one. It must be kept in mind that the information on the numbers and costs of local government in South Dakota is for all counties in the state. If cost data, for example, were broken into population size categories, the differential costs of smaller as opposed to larger units of government are rather substantial. Figure 1 displays the relationship between the per capita cost of South Dakota county government in 1983 and the population size of the county. Data on the per capita are also provided for each of the five population class sizes. Per capita costs range from a high of $334.54 for counties below 5,000 population, to $108.95 for counties of 20,000 population and above.

Average Per Capita Cost of South Dakota County
Government by Population Classification,
1983

Population Class	No. of Counties	Avg. Per Capita Cost
1. Below 5,000	26	$334.54
2. 5,000-9,999	24	$230.66
3. 10,000-14,999	7	$139.00
4. 15.000-19,999	4	$144.82
5. 20,000 and above	5	$108.95

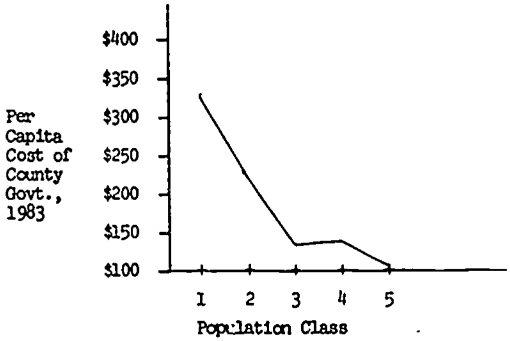

Figure 1. Relationship Between Per Capita Costs of South Dakota County Government and County Population Size, 1983.

Given the fact that farm declines are associated with rural county and municipal population decline, and given the fact that the number of farms will continue to decline in this state, a smaller resource base (human and economic) will have to be carved up by a fixed number of local governments in the future. In the 21 urban counties, and many of the municipalities in those counties, the carrying capacity for local government will continue to be in relative balance with the load. In the 45 rural counties and their small municipalities, carrying capacity will only continue to erode. Such a prognosis makes it important that certain actions be taken, thus bringing the burden of local government more in-line with the resource base. Not only is reducing the number and costs of local government in rural areas of the state important, but the capacity of local governments can be enhanced at the same time, thus producing a higher quality of rural life. Among the options that should be considered are: county consolidation; elimination of certain single-purpose districts with taxing power (such as townships); transfer of functions to the state level; regional approaches to service funding and delivery; vouchers; privitization of certain services; disincorportion of some; city-county service cooperation; and city-county consolidation; to mention a few of the most prominent options.

Courses of Action

As might be expected, there are numerous courses of action which can be undertaken. The particular option which a given community might exercise, however, will depend upon the local resource base, perceived problems, local decision making capacity, and political will. In general, two broad classes of actions can be identified for dealing with the local government burden and associated problems of rural areas in South Dakota. Some actions will resolve the "numbers" burden, others will enhance efficiency and thus address the financial burden. Some, such as consolidation, will do both, possibly. The first group of actions involve structural changes in local government, including consolidation (both city-county and multi-county), permanent transfer of functions to another level of government, and the disincorporation or abolition of governments. Structural changes can be initiated locally, or imposed by the state. The second class of actions might be termed local "self-help" and innovation. Included in this group are initiatives such as purchase of service contracting, interlocal service agreements with other governments, adopting alternative financing techniques such as user fees and charges, deregulation, voluteerism, and "doing without". While each of these options deserves lengthy treatment, only a few comments will be made about each one.

Structural Options

1. Consolidation

Reformers have long listed consolidation as among the most important and needed actions for improving local government (CED, 1966). Consolidation involves the merger of several governments with one another. While consolidation has been typically seen as a way of dealing with fragmentation in metropolitan areas, it has relevance to rural areas, as well. Consolidation can involve the merger of a primary city of all cities within a county with the county government, or the merger of several counties with one another. Because of the larger service and resource base which results from merger, whether in an urban or rural area, government can operate more efficiently as a result of economies of scale. Greater resources also make it feasible to hire professional staff and management.

In South Dakota, numerous calls have been made over the years for consolidation of counties. The result would be fewer but larger counties, with a larger service and resource base and resulting cost declindes. Farber and Cape (1968) estimated, for example, that if Buffalo and Jerauld Counties had merged in the late 1960's that the average citizen's tax bill would have declined by around 20 percent. Despite this, the consolidation proposal was never voted on. During this century, there have been changes in the organization of five counties in South Dakota, with three unorganized counties being merged with existing counties, and with two unorganized counties becoming organized. Beyond this, no consolidation efforts have been successful at the local level. Most county boundary changes in South Dakota, as elsewhere, have been made by the state legislature, with 44 counties being eliminated in all.

State legislative action mandating local governmental consolidation is not new; it is just a power which is not often exercised. Local governments are still very much, as Judge Dillon ruled so long ago, creatures of their state. School reorganization is a good case in point. During the 1940's and 1950's almost every state legislature in the U.S. enacted programs that encouraged or forced school reorganizations, through a combination of financial incentives and compulsory features (Sokolow, 1977). This can be done with general purpose local governments as well.

From the perspective of country and small-town residents, the reasons for reorganizing their local governments are not all that compelling and often do not rank with other more pressing problems of the day. Leaders and residents prefer their small units' accessibility; large size is also equated with higher taxes. People in rural areas are typically more satisfied with their governing arrangements than residents of large cities and suburbs (Luloff, 1978). The record of Montana with its mandated voter review of local government supports this view—as approved by voters, major organizational changes have fared better proportionately in larger than smaller communities (McKinsey and Lopach, 1979).

2. Disincorporation

Legal procedures for outright elimination of local governments through dissolution of the unit exist in most states. The track record for municipal disincorporation, however, has been less than impressive (for many of the same reasons operative in consolidation proposals). From 1970 to 1976, only 50 municipalities disincorporated in the U.S. Most, however, were located in rural areas, had fewer than 1,000 residents, and were declining in population.

Disincorporation is a viable option for small communities, particularly those with fewer than 500 residents. While such an action can mean the loss of services, usually only the most basic services are offered in such communities, anyway. Depending upon the specific services offered in these communities, many could probably be picked up by the county. Disincorporation, then, coupled with some "beefing up" of county services could aid in reducing the numerical and financial burden of local government in the state. Furthermore, such actions, if coupled with positive county action could achieve the same benefits that city-county consolidation might achieve, without loss of services and quality to the small town.

Although not technically disincorporation, the abolition of township government in South Dakota would fit within this option. Despite predictions of its demise twenty years ago because of limited functions and the greater efficiency of county governments (Snider, 1957: Chapter 9), the number of township governments has been reduced only slightly in South Dakota and the U.S. In fact, township units in the Midwest have undergone something of a revival in recent years with the advent of General Revenue Sharing. In the eyes of many people, this one federal program has done much to reduce the incentive for elimination or consolidation of townships (Nathan, et. al., 1977:141). In South Dakota, townships spent $7.2 million in 1982. Just over $6 million of this total was psent on one function—highways. Why have single-function governments that are organized along county boundaries?

3. Functional Transfers

The transfer of responsibility for a function or service from a local unit to one of larger jurisdiction offers a more incremental approach to restructuring local government. In many states, in fact, transfers of function are not seen as permanent if one unit pays another for delivering and taking over the service; it is something which can be revoked. In general, transfers of function involve a transfer from a municipality to the county government or the state. It may take place by voluntary action and initiative, although transfers usually are mandated by state law.

Functional transfers differ from cooperative or interlocal service agreements, or even purchase of service contracting, in that the acquiring government assumes full and permanent responsibility for the activity, including policy making, financing and administration. States often mandate transfers. Minnesota moved welfare administration from cities to counties, and Florida shifted property tax assessment from the municipal to the county level, for example.

A survey of cities conducted in 1975 indicated that almost one-third had turned over responsibility for at least one function in the last ten years (Zimmerman, 1976). Most transfers are made to counties, but around 20 percent go to special districts, and 12 percent to states. Transfers of responsibility can achieve economies of scale, eliminate duplication, and overcome the lack of facilities and equipment. The Advisory Commission on Intergovernmental Relations has long advocated transfers of functional responsibility as a means for responding to changing governmental and societal forces. Transfers of functional responsibility to the state level is a viable option in South Dakota. In many cases, transfers would certainly be voluntary, in others the state would have to mandate it. Short of consolidating or doing away with local governments, transfers of function, either from the city to the county level, or to the state level is the primary option for the state in relieving the burden of local government.

Self-Help Options

In addition to structural changes, there are a number of non-structural or "self-help" options open to local governments. Basically, these strategies are designed to eith enhance the efficiency and effectiveness of local governments in providing services; reduce service demand, or at least make the consumer more aware of the true cost of services used; or better utilize area and community resources. While the range of options is quite extensive, only some of the more notable possibilities are discussed.

1. Cooperative Service Delivery

Many governmental units enter into a joint service agreement for the production of a desired service. For example, a city might agree to respond to calls for police services during night hours in the county, thus reducing the burden on the sheriff's department. Such an agreement might be made on an informal basis, or it could be formalized in writing. Likewise, a municipality might contract for computer processing services with a county, while a county might desire to contract with a city for code enforcement services. In any of these cases, the service might be provided with no exchange of money or resources, or the service might be provided on a full-cost basis. In the latter, the agreement is likely to be formalized in writing.

Joint service agreements are popular because they can be entered into without voter approval and can usually be terminated easily. Service delivery can be made more efficient without redesigning or restructuring the local government. Among the service areas most frequently covered by interlocal agreements are fire protection, law enforcement, planning, building inspection, and road maintenance. Also, capital intensive services and facilities such as sewage disposal and treatment, water supply, office buildings, jails, airports and other public facilities are good bets for this approach. Cooperative service delivery is not as commonplace in South Dakota as in other locations. This is primarily due to the low density of population and the rural nature of the state. A strong barrier is simply the unwillingness of rural local governments to change their practices, however.

2. User Fees and Charges

Users of a service can be charged a fee based on the amount of their use of the government-supplied activity, thus putting the financial burden on users of the activity. Fees and charges should not be developed for the sake of revenues (although they can do just that), but as a means for adjusting the amount of service demanded by individual citizens or private organizations and, thus, affecting the overall cost of services. The rationale of this approach is that the persons who use a particular service should pay for it, in accordance with their amount of use. This should cause people to consider the service's cost to them and cause them to adjust their demand in proportion to the value they set on that service. This, then, more closely approximates the business principle of selling citizens only those services they want. The use of general revenues, such as property taxes, drives up the demand for, and consumption of, services since there is no added cost to the consumer and thus no incentive to conserve. Fees also give government managers and decision makers better signals about the needed size of public facilities and equipment to provide services.

The key to being able to use fees and charges is that specific beneficiaries receive the service, and that service can be divided among them without a substantial number of "free riders." Fees and charges can also take into account other cost aspects of service provision such as location; for example, larger fees might need to be charged in more sparsely settled areas of a jurisdiction to reflect the added cost of travel in providing the service. Among the services which are compatible with fees and charges are: police and fire services; emergency ambulance services; water and sewer; street maintenance and repair; libraries; parks and recreation; solid waste collection and disposal; inspections and planning; and certain health and human services.

Although user fees and charges do not comprise a major portion of local government revenues, their utilization is increasing. A 1981 survey of local governments found 45 percent indicating no opposition to the institution or increasing of fees and charges (Hatry, 1983: 79). There are, however, potential negative "distributional" effects; low income families and persons can be locked out of needed services. Local governments must also be careful that the charge for a service has a reasonable relationship to the cost of producing a service. Otherwise, legal challenges to fees and charges may be successful in blocking them.

3. Purchase of Service Contracts

For years local governments have contracted with private firms for a variety of public services. Today, purchase of service contracting is the most widely used alternative service delivery approach. Purchase of service contracting can be defined as a binding agreement in which a local government pays a private firm or non-profit organization to provide a specific level and quality of service. The local government may contract to obtain all, or a portion, of a service. Citizens, through their taxes or user fees, pay the local government, which in turn pays the contractor.

Most local government contracts with private and non-profit organizations are straightforward bid or negotiated purchase of service agreements. Such contracts can be used to reduce costs (by eliminating personnel, equipment and overhead costs), improve quality by eliminating the governmental monopoly, and to simply enhance responsiveness to citizen preferences as they change. Public works is the area where purchase of service contracting is most often found. This encompasses solid waste collection, snow plowing and sanding, tree trimming, and street lighting and traffic signal maintenance. Human and health services are also frequent contract areas, as are "support" services such as data processing, building and grounds, equipment and vehicle maintenance, labor relations, and legal services.

4. <u>Using Volunteers</u>

While not new, the role of volunteer personnel in the provision of public services has been elevated in importance in recent years as fiscal retrenchment has taken hold. Historically, volunteers have been the backbone of U.S. local government. Local government planning and decision making takes place through the participation of citizens as members of committees and advisory councils which provide advice to cities and counties. Indeed, in most rural communities, elected council and commission members are "volunteers". Most small towns and rural areas in the U.S. depend upon volunteer fire departments and rescue squads. The sense of "civic duty" undergirds each of these examples of volunteerism.

Although volunteers have always been an important part of local government, recent fiscal trends have put this factor in a new light. Volunteers are thus seen as a way of dealing with limited resources, as well as holding down the costs of government. Beyond these reasons, volunteerism can provide the important linchpin between government and the individual.

Voluteers, by definition, are people who work without pay for a local government. They are not given direct compensation for time of services, and they are not coerced into providing a service. Typically fire services, parks and recreation, and certain human services are the most volunteer-intensive local government service areas. Volunteer services can go beyond this, however, and can encompass things such as the development of personnel and pay plans for cities and counties, software for computers, and budget assistance, just to mention a few possibilities.

Incorporating volunteer personnel in local government services and operations requires some planning and preparation. Who can coordinate volunteer personnel; can the city spare a person, or should a volunteer do this? Will volunteers be used on a project-specific basis, for on-going activities, or both? Will expenses such as meals, uniforms and transportation be reimbursed? How will insurance and liability issues be handled? As a part of a volunteer strategy, many communities have found it helpful to enlist the support of the business community for supplies as well as for volunteers from staff.

Concluding Thoughts

Much ground has been covered in this paper. At this point, it is easy to miss the forest by focusing too much on the trees, so to speak. While there are a number of options for dealing with the local government burden in South Dakota, the self-help strategies are, in many respects, band-aid approaches. In most instances, such options will not be seized upon because of the lack of political will and the dearth of management decision making capacity in rural local governments. All in all, the self-help options are probably best suited to the urban counties and municipalities in South Dakota.

Structural changes are the most likely to provide lasting and effective answers to the local government burden issue in this state. Yet, experience in South Dakota and elsewhere indicates that such changes are also the most difficult to achieve. Because local initiative is unlikely to develop, state-level leadership will, in all likelihood, be required to make the structural changes necessary to maintain quality and effective local government services in the declining rural counties and towns of South Dakota.

The federal government can aid this process of state leadership in helping rural governmental systems adjust to a changing environment by continuing to strengthen the states. Such a process has been underway in recent years, primarily through the development of block grants. In South Dakota, a relatively centralized state, the evidence is that the expansion of block grants has served to accelerate and reinforce the process of state centralization. At the same time, the federal government must work to ensure that job training and other human resource programs are targeted to rural areas undergoing economic adjustment. In this regard, the information base for allocating such programs must be improved so that rural areas receive the funds that are needed for human resources programs. Clearly, an agriculture policy that provides stable and positive net incomes to farmers will also help the problems addressed in this paper. Farms and communities are linked; farm decline brings county and municipal population and economic resource decline. State and federal-level actions must be undertaken to simultaneously stabilize rural economies,and to promote adjustment of their governing structures.

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Senator ABDNOR. Thank you Russ, we appreciate your comments and your contribution to this discussion we will be holding throughout the day. I am going to take this opportunity while I have every one here to make another announcement, so not to take away from our meeting this will be quick. Wednesday, February 13, we are going to continue on with a second hearing on this committee for information to take back to Washington. We are out here and so is the staff, and so I want to take advantage of it. That second hearing will be in Brookings at the Memorial Arts Center and the subject is taxes and agriculture. I feel extremely strong about that particular subject, and while we are going to be discussing a number of subjects, we are going to review the general tax features and undoubtedly get on the subject of the new tax, the flat tax, depreciation, and the capital gains.

But there is another subject that is dear to my heart that I think has caused an awful lot of trouble in agriculture, and that is tax sheltering. There is legislation in which I have national interest in, and in which I also have national opposition to. So we aren't kidding ourselves, but I think my interest is with the farmers who think like I do, I would like to hear from them, so that day is going to be pretty well devoted to the subject of tax sheltering. I just want you to know that. As you notice today, maybe some of you come to talk specifically about one subject, but this is the kickoff, this is covering all the spectrum of rural America. I just wanted to keep that in mind as we progressed. I am going to turn the meeting for a second over to Dale Jahr for a few comments on the ground rules here.

Mr. JAHR. Thank you, Senator Abdnor. We have many people here that want to testify and we have also been contacted by many South Dakota groups and organizations who have asked to give testimony at this morning's meeting. We also have many topics for discussion as the Senator says, and because we have so many people here to talk about so many diverse subjects, we have to lay a few ground rules. If you testify, you must sign up on the roster sheet that is over by the cashier to my right, in the back of this room, so that we have your full name and address. Second, when you are called upon we would appreciate if you would use a microphone. If it is difficult for you to get to a microphone, you will have to speak as loudly as you can so that everyone will hear you clearly. We will take this podium microphone down to the floor level for those people who can use the microphone.

Please limit your speaking to 3 minutes. Please remember that we are interested in your recommendations and suggestions for improving the South Dakota economy. We would also encourage a question and answer format if people in the audience desire to ask any of the witnesses questions. Also, I might add that anyone who would like to submit prepared statements to this hearing may do so. Please make sure that your name and address does appear on your testimony. If you do have prepared statements, you can either hand it to me or to the court reporter who is here with us so that we can get it inserted into the record.

I might also review the different topics of discussion that we would like to get your general comments on today. Those include agriculture and agribusiness, an assessment of main street, small business and economic development, rural finance, transportation, public works and infrastructure, deregulation, native American issues, rural health care and elderly issues, rural education, and rural government. We can learn so much from you on each of those topics, so we would appreciate anything you have to say on those topics. Senator, at this time I will return it to you.

Senator ABDNOR. Thank you, Dale, I think you see what we are driving at. While this day is devoted to the whole picture of agriculture, we also need to kick off things like health care, rural government, and all education issues. I just want you to know the detail and strength of our hearings in the year and a half to come. We will start off with our first issue in the agricultural area, agricultural business. I am going to call on Lance Ekberg of Winner on behalf of the American Agricultural Movement. Please come forward Lance. After Lance we are going to have Laverne Aisenbrey of Olivet who will be testifying on behalf of the Farmers Union. Lance we welcome you here today and we appreciate your coming way over from Winner to speak on this subject.

STATEMENT OF LANCE EKBERG ON BEHALF OF THE AMERICAN AGRICULTURAL MOVEMENT, INC.

Mr. EKBERG. I am Lance Ekberg, I am from Hamill. I am here to represent the American Agricultural Movement today. The American Agricultural Movement has proposed some of these items here to be included in the 1985 farm bill. Such as production controls, we propose to establish a mandatory program through referendum by farm operators with quantity controls such as bushels, bales, pounds and so on, in addition to a 10 percent acreage reduction. Production levels should be established according to inventory stock. Loan rates should be set at not less than 70 percent of parity or the average cost of production on all storable commodities including milk. Minimum nonrecourse loans, terms should be 36 months with loan rates increasing 2 percent annually throughout 1996, and remain at 90-percent parity thereafter. Storage rates for onfarm storage and commercial storage ought to be the same.

We propose a national food reserve to be established to guard against food shortage, and released only when a food shortage has been declared by the House Agriculture and Senate Agriculture Committees. Inventory stocks of each commodity shall be set by the Agriculture Secretary and shall be managed by the Commodity Credit Corporation.

All agricultural products imported such as livestock, poultry, dairy, fish, vegetables and so on shall be labeled as to the country of origin. Any processed or commingled products shall be labeled as such. All imported products shall have the same inspection and meet the same standards as domestically produced products. Products containing residues of U.S. banned chemicals shall not be allowed to be imported into the United States. Red meat imports shall be controlled by a price trigger and reflect a parity level consistent with other agriculture commodities and no agricultural products shall be allowed entry at a less than domestic price as provided for at the GATT, General Agreement on Tariffs and Trades.

Exports, United States shall use subsidies to maintain our market share in world trade and this device should include export PIK, adequate credit, interest buy-down and so on. The U.S. subsidies should match those by foreign governments hidden or direct. Farm tax loop holes. There should be a maximum writeoff of $20,000 for nonfarm income through tax loss farming. Soil conservation, the existing soil conservation programs shall be continued and expanded to problem areas.

Farm credit, reschedule farm debts on a case-by-case basis to allow the operators to meet cash-flow requirements necessary to continue operation. Terms of the loan for 20-year maximum shall be established by a county committee. The county committee shall be elected by farm operators in a county referendum and shall be a functioning loan committee of no fewer than five people, three of which must be farm operators, elected by their peers and will in turn appoint two others from other financial communities, and one holding public office. We think that agriculture, we ought to quit looking at agriculture as a problem, but we ought to look at agriculture as a solution. I thank you Senator for the chance to appear before you.

Senator ABDNOR. Thank you, we appreciate it when we ask for comments on how to improve the situation you are doing exactly that, thank you. Our next witness is Laverne Aisenbrey, I believe he is here, I saw him when I first came in. Here comes Laverne. On behalf of the Farmers Union. Before you start, I want to ask, is there anyone who wants to testify from the Farm Bureau? If there is, we will call on you next.

STATEMENT OF LAVERNE AISENBREY ON BEHALF OF THE SOUTH DAKOTA FARMERS UNION

Mr. AISENBREY. Thank you, Senator, I was asked to come here although I haven't any prepared statement, I just came back from Billings, MT, and when you mentioned my name it kind of surprised me. We feel that we have a program that will give income to the family farm. Up to now all we have ever heard was loans, low interest loans, disaster loans, and when it comes right down to it we feel we have been loaned to death. Hutchinson County here has been declared a disaster loan through the flood we have had all spring, the wet season we have had.

I went to Parkston and inquired about the low disaster loan or low interest disaster loan and I was told that I have to have collateral. Where am I going to get collateral? The bank already has it. The 5 percent doesn't mean a thing. You can have loans at 1 percent, it is not going to help us any. There is no way we can pay it back, we are loaned to death now. So we feel we have a program that will put some money in the farmers' pockets once. That is what we need.

Our program will guarantee every farmer in the United States at least a net income of around $20,000 which we feel is the average income of the American wage earner. Interest, interest is another thing that has put us to death. There is no way we can keep going with the interest rate we have today, we have to get it back to at least single digit interest. The fellow before me I think said a lot of things that we feel the same way about, so I am going to cut this real short and if you have any questions later on, fine and dandy, thank you.

Senator ABDNOR. Thank you, Laverne, and for others who haven't signed up in representing agricultural groups, we will hopefully give you a chance later on because we already have witnesses that have requested time. Again is anyone here from Farm Bureau that wanted to testify? They had requested time and they didn't show up. I have Kent Brick of South Dakota Rural Electric Association, is Kent here? We are happy to have you here, Kent.

Mr. BRICK. I will keep this short.

Senator ABDNOR. If you want to put a prepared statement in the record, you have a day or two afterward you can still submit it, we will make sure that becomes part of this testimony.

STATEMENT OF KENT BRICK ON BEHALF OF THE SOUTH DAKOTA RURAL ELECTRIC ASSOCIATION

Mr. BRICK. My name is Kent Brick, I represent the South Dakota Rural Electric Association, a State trade association of the rural electric co-ops and we are here to support your initiative, Senator. We believe the timing on this initiative is not only appropriate, but urgent considering the gravity of the problems that we in rural South Dakota face.

The speakers before have told us about the problems that we do face, problems in agriculture, small business, education, and the like. We are also faced with the Reagan budget. The Reagan budget it seems has arbitrarily placed rural America on the chopping blocks, and on behalf of the rural electric co-ops, I am here to tell you that rural America deserves a better and fairer shake than the chopping block. Some of the solutions that are being offered reflect what Americans believe about Mr. Reagan and about what he offers to solve our problems.

I think everybody in this room believes as I do that Mr. Reagan represents a stronger and prouder America; but the shake that he offers rural America is drastic indeed. Before we say as Mr. Reagan believes that we need to get government out of rural America, we need to ask just what it is that government means to rural America. We would contend that government involvement in many instances has been part of the solution to our problems to equalize the economic inequalities that exist here in rural America.

Now, this brings to mind how we solve our problems here in South Dakota, Senator. We do what you have done here today. We bring South Dakotans together, recognizing that though we have hard working Representatives in the U.S. Congress, we have very little clout there. Everybody knows that the cities run Congress, everybody knows that the people that run Congress have very little time for rural America. So we need to get together to present a unified force and to bring, draw attention effectively to our plight.

Now just to briefly tell you about the problems that we in the rural electric program face, I am sure that you are well aware of the fight that went on with S. 1300 in the last congressional session. What happened was it was an attempt by our National Association of Rural Electric Cooperatives to assure long range financing for rural electrification to provide a basis for affordable, reliable electric energy, a key component to the infrastructure of our rural economy, and what happened was a stalemate instigated by the Reagan administration and a handfull of Senators that just chose not to listen to us.

We, as I said Senator, we believe that a strong rural electric program is a vital component in the economy of rural America, and we would hope that whatever this task force comes up with in terms of objectives and priorities, that a maintenance of a strong rural electric program advocating affordable and reliable electric energy will be a part of this task force's priorities. I believe in your letter announcing this initiative, Senator, you said it is time for South Dakotans to roll up their sleeves and go to work. We in the rural electric cooperatives have all got their sleeves rolled up, have always been ready to work. You tell us when you need us, where you need us, we will be there, thank you.

Senator ABDNOR. Thank you, Kent, for that very good statement and I guess we all know that rural electric has long carried a load of trying to get our story told and we know of your great contribution. I want to say one thing I am hopeful for. We are few in numbers, but as I told my fellow colleagues in Washington, like Bill Proxmire and every one else, what I was trying to do, I was amazed to find a lot of interest in trying to get this thing going. I know if we just talk on the general subject we can make some progress. It is not going to be easy, that I know. Several times I have held off the economic adviser, last week I found one page of testimony on rural America, let me assure you he heard the rath from me. But all of us have to keep working on this and get this out in front of the people.

The lady who handles labor statistics, Ms. Norwood, admitted those figures mean nothing as far as rural America is concerned. They are not slanted but we are just a small proportion of the overall picture, only we are down the spectrum, I mean down on the bottom of the pole, and they are more concerned about the masses, I guess. We appreciate your testimony, thank you very much. Milt Schwartz.

STATEMENT OF MILTON SCHWARTZ, EXECUTIVE VICE PRESIDENT, SOUTH DAKOTA BANKERS ASSOCIATION

Mr. SCHWARTZ. Senator Abdnor, Mr. Jahr, my name is Milt Schwartz, I am the executive vice president of the South Dakota Bankers Association headquartered in Pierre. The three panelists, that we see before us, have articulated this morning those very things through historical fact and through statistics which the bankers of South Dakota feel here every night when they try and go to sleep and figure out what they are going to do with this farm customers and those commercial customers in the morning. Those are the things that we are here to talk about.

There is no question in anyone's mind as far as my members are concerned about the revolution, or the process, whatever you might want to call it, in which we find ourselves in rural America right now. The fabric, the pattern of the fabric in agribusiness and agrieconomy is changing so fast that you have to read about it every morning when you get to the office or you get up to do your chores.

A few statistics. I know they are cold but they are important none the less. South Dakota banks represent $1.4 billion in farm lending. There are 150 commerical banks doing business in South Dakota. Now you add to that at least another $1.5 billion in commercial lending in the State of South Dakota, and you see why our members have an interest in what you are doing here today, Senator. Another statistic which we don't like to talk about, but in 1984 more banks failed in the United States than in any year since 1938. We have been pretty lucky in South Dakota, we haven't had any that have been liquidated. Those few that have had problems have been merged, but we still don't know what might happen in the future.

The statistics though for South Dakota banks I think, Senator, indicate that they do have a strong, strong position. The ratio of equity capital to the total assets for banks in South Dakota is the highest of any surrounding State in this particular region, and our equity to asset ratio is way, way above the national average. So the banks in South Dakota are built on a very solid foundation, but that does not mean that there can't be problems and we are here to discuss that. So, we ask, you asked, and your committee asked for possible solutions. In general terms two things we believe have to be done.

No. 1, a short time effort probably on behalf or on behalf of agriculatural by the Federal Government to provide credit for those credit worthy people in the agricultural sector for planting in 1985. Let's get right down to where we are. Second, there has to be a discussion, there has to be planning, there has to be a strategy for long range agriculture, the agricultural economy not only for South Dakota but for the entire nation. To accomplish that, we have seen some programs already at the national level. For the short term the administration is talking about some interest buy downs, some other things.

The program that came out last year, our members do not feel was appropriate, was not used, and will not be used. There is a difference in a program which was announced last week, and it will be most appropriate I think if there is time for some of your experts up there next to you to talk about that initiative by the administration. In closing, we commend you Senator, and your staff and other Members of the U.S. Senate for this initiation. We stand ready to do all we can. Thank you very much.

Senator ABDNOR. I want to ask you a couple of questions. I mean he is leaving and I think he is too important to this overall problem, money, to let him out of our sight.

Mr. SCHWARTZ. As I was called the other day, Senator, I am just a hired hand.

Senator ABDNOR. You may be a hired hand but you work for the people that are going to keep these farmers in business. I jumped Paul Volcker of the Federal Reserve last week who was in front of my Joint Economic Committee. He had used the word four times in his testimony and very honestly I felt he gave the best understanding of the overall problem that I have heard from any of these people coming into this committee. I kept his statement because it is good, but he used the word confidence four times, and that is exactly what I had in mind. Am I wrong in saying there is a great lack of confidence gradually eroding out here between bankers and farmers and the whole main street? I hear that one seed company is going to demand payments at delivery. Is that going on? I mean are we getting to the place where farmers, even though they have some debt, may belong to a particular group which may be in pretty good shape, but they are scared they are going to be next. Do you find that is going on today?

Mr. SCHWARTZ. I think there is a great deal of anxiety in the rural communities in South Dakota, and also in the, what we call our metropolitan areas in the State of South Dakota. Mr. Volcker is an extremely intelligent man, and I don't doubt that he gave you an excellent overview. Mr. Volcker you could probably call the architect of the great inflation/deflation that we have seen in this country over the last 4 or 5 years. That has also caused agriculture some problems, so nothing is ever black and white, and confidence is not necessarily something that I have heard used in the State of South Dakota. May be used in other places, but we are finding a great deal of anxiety developing between customers, whether it be of banks or whether it be of retail outlets, and we are finding ourselves, Senator, in a position where smokestack America has found itselfover the last 4 or 5 years. There is a shaking out of this industry we call agriculture here in South Dakota.

Senator ABDNOR. About this uneasiness, I asked Mr. Volcker: How much of it could you contribute to the Federal Reserve and the FDIC and the Comptroller of the Treasury and the kind of pressure we are putting on our banks and our lending institutions.

Is there something to that, that they could help a lot by alleviating, readjusting their demands and their requirements on the part of banks? That was one of my pleas, I don't know whether I was on the right track or not.

Mr. SCHWARTZ. Yes, there are things that could be done at the Federal level which just can't be done at the State level relative to what banks can or cannot do, or how lenient they may be with their customers. You see, whether it be a State charter bank or a national chartered bank, they are all examined by regulatory agencies, by the State, by the Federal Deposit Insurance Corporation, or by the Comptroller of the Currency, they have to be a national bank, and there has been a lot of publicity lately about the examining staff, not of the State chartered, not from State chartered banks because they know what agriculture is like, but the national examiners that sometimes come in from out of State and don't know the difference between a cow and a bull in some instances. We feel that is changing to a certain extent.

I think there has now crept into the regulatory agencies a feeling that you are going to have to treat the loan portfolios in the banks in South Dakota and other agricultural States in a different way, and we commend that. There is lots of things that, not lots of things, but there are things that could be done in the Federal tax laws which could alleviate some problems right now as far as the taxing of financial institutions. So, we can talk about it here, but as the gentleman before me stated, we are going to have to get that idea across in Washington, yes.

Senator ABDNOR. You thought there may be some merit in this new proposal of Block's? I mean, will that create a little more?

Mr. SCHWARTZ. I haven't had an opportunity to study it. I have read some commentary relative to at least two of the national trade associations which represent bankers in this State, and in all States, and they seem to think at least in the commentary in the trade news that there is more merit to what Mr. Block has proposed now than last fall, but everybody is still holding their breath, nobody has seen the particulars really on paper. To my understanding, it's been explained in large part orally so far; and until a bank or anyone else in the lending business can see something in black and white, they are not going to get very excited about it.

Senator ABDNOR. I absolutely agree. The only thing you can say for it is that it is immediate, it starts now. There are efforts being made to liberalize the program and make it more available to all, but that is going to take time. By the time it goes through the subcommittees, committees, passes one body, goes through the same action on the other side, then goes to conference, and maybe, who knows, it might then get a veto. That takes time, this is in effect now and I am just wondering if in its small way it will help a little until we do better. So I guess you tried to answer that.

Mr. SCHWARTZ. I have tried to answer that, yes.

Mr. JOHNSON. You feel there is a shake out taking place in the agricultural sector. I believe this is also a shake out taking place among banks as well or in financial institutions.

Mr. SCHWARTZ. I would agree.

Mr. JOHNSON. In the industry do you have a feel as to the perceived risk that there might be as a result of the linkages between the various banks? As an example, take under the Bank Holding Company Act where you suddenly end up in a sense levering one bank off the equity of another bank and you can essentially pyramid it. To what extent does that take place, and how much danger is there involved here?

Mr. SCHWARTZ. That is not an easy question, Jerry. Holy cow.

Mr. JOHNSON. It is a fear that I have because it is like a pyramid. You take the brick out on the bottom, how many others are there sitting on top of it? Do we have situations of that nature?

Mr. SCHWARTZ. In South Dakota, not to my knowledge to any extent whatso ever.

Mr. JOHNSON. I am happy to hear that.

Mr. SCHWARTZ. That would be my general answer. I think most of the members of my association would agree. You see, most of the members of our association are banks of $25 million or less in deposits.

Senator ABDNOR. We are going to go into the next category. Let me say we have a whole list of people that have signed up and we are going to call on, have you signed up over there yet?

Mr. BYG. I have not signed up. I was here is all.

Senator ABDNOR. I think we will go into our next category because these people have requested to be here for quite sometime now, and we try to be fair on this. The main street, small business, and economic development, those are all subjects of extreme importance to us as we talk about rural America. I am going to ask Dave McNeil, South Dakota Chamber of Commerce to kick off this topic.

Dave, are you here? Is anyone here representing the South Dakota Chamber of Commerce? Well, if not, I am going to jump right into Al Kurtenbach who is with the South Dakota Manufacturers & Processors. We all know the fine job that Al is doing over at Brookings and we are anxious to hear from you Al.

STATEMENT OF AL KURTENBACH ON BEHALF OF THE SOUTH DAKOTA MANUFACTURERS & PROCESSORS ASSOCIATION

Mr. KURTENBACH. Thank you very much, Senator. It is indeed a pleasure for me to be here. I happen to be a resident of Hutchinson County, I spent the first 20 years of my life in Hutchinson County, so it is always nice to come back home and see some of the folks, I recognize the faces. I want to make a few comments and then I am going to get into the areas that I think that we can make some progress in.

First of all, I want to say that I am thankful to the taxpayers of South Dakota for providing a school for me to get my college education. I had the opportunity to attend South Dakota School of Mines, and then after going down to Nebraska for a year I came back to South Dakota, and I want to mention that I think, I have always looked on South Dakota as the land of opportunity. I looked on South Dakota as the land of opportunity 23 years ago when I decided to come back here for my lifetime career, and I still look on it as the land of opportunity. I took my lowest paying offer back in 1962 to come back to South Dakota and work, because I think there are so many fine things here, the people are so fine, the opportunities are so great, and I have enjoyed every year of my time here.

I think we all look at economic recovery as what money is in it for us. We can talk in grand terms and all that stuff, but at the end of the day I think we look at our bank account and see what is there. If it looks all right, then we have economic recovery, if it doesn't look all right, then we don't. So, I just think that is what we are looking at. Now we look at the short term and the long term. I think we all recognize that employment in South Dakota, that is what the retailers on main street look at for their economic recovery. If there are no people here making money, then they don't make any money. So we have to have people in South Dakota if we are going to have money in South Dakota.

So we are looking in terms of employment opportunity in South Dakota. Now I think we ought to recognize, and let's be honest that the agricultural employment in South Dakota has been on the decline steadily year, after year, after year since around the 1920's. So there is nothing unusual that has happened here in the last year or two. I think we all know that this has been taking place year after year on a regular basis. So I think we are kind of aware over that. Second, I think we have all looked around the State and there are no oil fields, there are no coal fields in South Dakota. We are not blessed like Wyoming and North Dakota, with oil and coal, so there is no energy mining going to come in to South Dakota and going to save us. We don't have it.

Third, I think we recognize that tourism, while it is a great contributor to the economy of South Dakota, is a very cyclical source of money. We get tourism money primarily in the summer time, it is not here in the winter time. So if we are depending on that to save us, it might be a long haul. So that brings me to the area that I am in and that is an area of manufacturing and technology. Now that is not something that is going to help you get your crop in the field this spring that is for sure, but it might help your children, might help your grandchildren. I think we have to look at that a little bit too.

Now there are three ways that we try to build our industrial base in South Dakota, and through building our industrial base and our technology base, we are able then to provide jobs. The first way, and that we are all hear about is the method our Governor worked so hard on that is to invite people in. We look outside, we say there is somebody, they can come in and they can provide some jobs for us, and that is fine and good.

The second way is that we help our existing industries to expand, and this is the reason I am here is because we have a little trade society in South Dakota called the South Dakota Manufacturers & Processors Association, most of you have probably never heard of it, but we are in fact active and we are trying to maintain our good business climate in South Dakota so that there will be job opportunities here for your children and your grandchildren. We need to help those folks in South Dakota that do have manufacturing and processing and technology businesses going so that they in fact can expand and employ more people.

The third way is to grow our own companies. Now some people say well that is nice to talk about, you can't do it, so on, so forth, there are all kind of excuses for not getting around to it. We can do it if we put our mind to it and get down to it. I have been involved in 15 years in a company that we started by walking the streets of Brookings to get our seed money, we invested and asked people if they were interested, now we employ about 198 people.

Now what environment will help companies get started? I think it is important to ask that. There are basically three categories of this environment. The first category is an area where there are a lot of other small technology companies. That is the most fertile seedbed for new technology companies to get started. Now we don't have that seedbed in South Dakota.

The second most fertile seedbed is to, is that universities and colleges, and this has been demonstrated nation wide. So I encourage you if you don't know the folks at your local university or college, I encourage you to get in and find out who they are, get on a first name basis with the people on the firing line, that means the professors in the classroom. We have far too much inhibition about our people getting to know the teachers in the classroom. How they can help out, finding the details. Get in and know, ask questions.

The third is to have new businesses start from big businesses, we don't have that in South Dakota, the one thing we have is our schools and colleges and universities. So I encourage you to support them and take advantage of them.

One thing that has come up recently that could lead to something is just last week I was asked to be chairman of a committee to get some seed money in to South Dakota for some research and development and that is the National Science Foundation wants us, they consider South Dakota to be a deprived State, one of 12 right now, and they are asking us to submit a proposal to get some research and development funded, and they are willing to, you know, they say they are going to fund 8 to 12 States.

If we can get a reasonably good proposal in, then they will fund up to 8, hopefully they will pick ours, but you know, there is a kicker to it as there always is, and it is going to require a fundamental change on the part of you people in this room, on the part of all the taxpayers in South Dakota, and that is this agency of the Federal Government says they will put up $3 million over 5 years if we are willing to do something ourselves, you know, if we are willing to say that, if we are willing to recognize that industry and technology is where we need to find jobs for our children and grandchildren. The other States recognize that, and the other States are going to match that probably a dollar for dollar, and if we don't, then we are not going to get that.

So, I am going to be talking a little more about this over the period of the next year and hopefully the folks in South Dakota will realize this and see it as an opportunity, and will get something going. I really think that we have tremendous opportunity, we have to be forward looking, and I always think back of being we are in Hutchinson County here it makes sense, but back about a 100 years ago, my granddad got off a train in Scotland in the middle of the winter, and he walked north from Scotland up to Dimmock, and if you ever walked north in the middle of the winter in South Dakota, you know that you have got to be convinced that there are good things ahead. And I am telling you, folks, we are only two generations away from people that did that. So let's do it ourselves, let's get in there and get some things done. Let's look ahead and let's get it done. Thank you, Senator.

Senator ABDNOR. Thank you Al for that inspiring speech. Let me tell you people in the audience, he knows of what he speaks. I have been to his plant, I have seen part of his family, a young daughter working there in that plant. I saw a lot of those young graduates out of South Dakota State University working in that plant. The only thing he didn't tell you is he also contributes to the girls basketball program in Brookings, he probably has one of the most outstanding young lady basketball players in South Dakota. Thank you Al. Our next witness is Mr. Richard Schleusener from South Dakota State University, a fellow I used to work with in South Dakota government. Excuse me, South Dakota School of Mines and Technology. You have to be careful if you are a politician talking about these colleges. Thank you very much for coming all the way out from Rapid.

STATEMENT OF RICHARD A. SCHLEUSENER, PRESIDENT, SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

Mr. SCHLEUSENER. Thank you, I am happy to be here. I have a prepared statement that I will provide to you, so I will attempt to summarize very briefly.

Senator ABDNOR. Thank you, that will be made part of the record.

Mr. SCHLEUSENER. I would like to make two points, with respect to technology and rural America. There are technologies that are in existence now that are drastically different than a 100 years ago. there will be new technologies in the future that are drastically different than what we are doing today. Technology in agriculture has displaced agricultural laborers. But I would submit that it is necessary to maintain a base to continue to develop new technology because if we do not in the United States maintain that difference, our people are going to be subjected to competition from foreign countries and lose the competitive advantage they have because of that technology, we can illustrate some of these.

I think of only two that are current and will have a significant impact in the near future. One of these is microprocessors, sometimes related to robots. The computer can do things that people norma''v have been doing in the past, offers the potential for substantia. 'uction in labor costs and can make an enterprise more efficient.

Another development on the horizon, I think, will have a substantial impact, relates to utilization of computers comparable to what other businesses have gone through and are now going through with respect to the lower cost of the hardware, and the greater availability of the computers that can provide management assistance and just as other businesses have been forced to computerize thei·· management and records because of the competition, an increasing number of agricultural businesses will be doing the same thing in the near future. So the plea is to continue a system that new technology can develop to help in the future.

Last fall I had the privilege of attending a national meeting in Dallas, TX that was focusing on the subjects of development of high-tech industries and how this might happen in various States. There are any number of mechanisms going on in different States right now in which the States are taking the initiative to try to do this. Let me give you some examples of some mechanisms by which this can take place, and I use examples of things that are taking place.

One good example is the speaker that just preceded me, the development of a new electronics industry, a high-tech industry that is now often running and working effectively. Let me give you an example of what is going on right now in our own campus, in which one of our professors developed some chemicals that can stipulate the growth of roots substantially, that process has now been patented. Those patented chemicals will be developed and marketed, it turns out this will be done by a new South Dakota business. So in addition to the potential benefits and the growth of plants, we have the economic activity that is generated from the creation of the new business.

As another example, it is a source of frustration to me personally that at the present time approximately 80 percent of our graduates have to leave the State in order to find technical employment. I would like to see that turned around. One of our graduates in the 1930's recently gave our school a substantial gift to encourage the development of what he calls entrepreneurship and technology.

I surveyed the students that were in that class, and found to my interest that the majority of them, of those students have as a high priority objective for their personal objective the long term ability to establish and manage and own their own business and therein I think lies promise for the future of South Dakota if we can bring some of that brain power to bear in our own State instead of exporting it. In terms of how this is accomplished there are some things going on right now that I think offers some encouragement to try to get a partnership between higher education and the businesses of South Dakota.

We have been working through the South Dakota State Chamber of Commerce to take positive steps to try to develop a better partnership and working agreement and communication between business and industry and higher education. I believe that those efforts can and will pay off in the future. One last comment to be made in closing.

Mention was made earlier of the disadvantage that is a reality to South Dakota by virtue of deregulation, particularly in transportation and in communication. That is a reality that in a de-regulated society we as a sparcely populated State suffer a disadvantage. I think we need to ask ourselves what are the relative advantages that we have and what are the relative strengths that we have. It has been our privilege over the past years to frequently have on our campus as commencement speakers high ranking officers in major U.S. corporations.

A common theme that runs through my conversation with these people when they come to our campus is this, I have been told on repeated occasions they prefer to come to agricultural midwestern States. Why, because they find there a stronger remnant of the work ethic than they find in other parts of the United States. We talked about the person that walked north in South Dakota winter, we have some residuals of that work ethic here that give, I believe give us a base on which we can indeed do those kind of things that will help us in the long run and make some opportunities for us arising out of the current problems. Therein I think lies our hope to the future and thank you for the opportunity to comment here, Senator.

[The prepared statement of Mr. Schleusener follows:]

Prepared Statement of Richard A. Schleusener

TECHNOLOGY AND RURAL AMERICA

I. INTRODUCTION

Rural America is in economic trouble. This fact is evident from the increased current public attention given to problems of American agriculture. While the productive power of American agriculture contributes to a favorable U.S. balance of trade from agricultural exports, a combination of the high value of the American dollar and increased foreign competition has produced increasing economic stress in American agriculture. These factors lead to a dual objective for many American farm operators to survive economically in the next decade and to strive to build to a position of prosperity as we move to the 21st century. My comments give some brief observations on the role of technology in rural America in this setting.

II. IMMEDIATE ECONOMIC RELIEF FROM TECHNOLOGY?

The factors that are currently affecting American agriculture adversely are not likely to be eased by any single or simple solution. Technology can and will have an impact on agriculture, but technology provides no panacea. A more promising approach is to explore how technology might be utilized in the long term to benefit American agriculture.

III. APPROACHES FOR LONG-TERM IMPROVEMENT IN THE ECONOMIC HEALTH OF RURAL AMERICA

Agricultural research to improve agricultural productivity is sometimes criticized because of its impact on the agricultural labor force. Agricultural technology has produced drastic changes in the composition of the American work force during the history of the

United States. In the nation's early years we had a work force primarily engaged in agriculture. In contrast, we now have less than 5 percent of our population actively involved in production agriculture. Although trends continue for larger and larger farm units with a consequent reduction in our agricultural population, the number of persons impacted will be less than in the past because the current number of persons employeed in agriculture is relatively small. Reducing or eliminating research on production agriculture would be a tragic mistake because a termination of support of such research would mean that American farmers would become less competitive than their foreign counterparts and as a consequence, lose even more of their markets in a competitive world economy.

The technological applications having the greatest promise for immediate utilization in agriculture are those which can assist in providing improved productivity or quality and reduced cost for more effective competition in world markets. What are some of these technologies that offer potential to give such productivity improvements? Some of these are related to recent developments in computer technology. Two developments are worth mentioning. One relates to the application of microprocessors to agricultural production problems. Microprocessors, the term applied to miniturized computers used in a mode for monitoring and control of various processes, offer significant cost advantages to many industries, including agriculture. Such devices, including robots, can be used to control, on a programmed basis, a variety of industrial applications and processes, and in many cases serve as substitutes for human labor at substantially lower costs. The application of microprocessors and robots to agriculture is a relatively recent development and is one that has the potential for substantial cost reductions to make American agriculture more competitive in worldwide markets.

Another application of computers has the potential for cost reduction and enhancing the probability of economic survival for some farm operators. This application is possible because personal computers are now available with enhanced capacity and with relatively low cost. These improvements permit individual farm operators to use personal computers (a variety of brands are available) that can utilize new computer software for improved management of the farm enterprise.

I recently discussed with the owner and manager of a Rapid City business his perceptions that his current business environment differs drastically from that which existed ten years ago. The reason given was that introduction of computers to inventory control and other elements of his business operation had reduced costs substantially and had made significant changes in his business and in the businesses of his competitors. Since use of computers is becoming widespread for business management, individual businesses have little choice except to computerize their business procedures to remain competitive. We can expect this trend to accelerate in American agriculture in the next few years.

I personally have been involved in South Dakota and adjacent states in research directed at beneficial weather modification. The research results from these and other efforts leave little doubt in my mind that beneficial results are possible from this technology. However, technical uncertainties remain on the potential for beneficial utilization on a larger scale. These technical uncertainties are equalled or exceeded by the socio-economic questions posed by society for use of the technology on a larger scale. As a result, more research is necessary before the technology can be applied with confidence.

Many other areas of technology have the potential to benefit rural America. These include biotechnology, energy and soil and water conservation, and genetics research for improved crop and livestock production.

For the long term health and prosperity of American agriculture, we must maintain a research base to develop new ideas and new technologies which can be applied to the practical problems of agriculture. The land grant system which has been in existence for more than a century, provides a partnership of federal, state, and local support for agricultural research which should continue. An ongoing research program will benefit not only American agricultural producers, but American consumers as well.

IV. FOSTER DEVELOPMENT OF NEW ENTERPRISES IN RURAL AMERICA

The census of 1980 revealed, for the first time, a movement away from increasing population concentrations in major cities in the United States. This change in population pattern suggests that there is a preference on the part of many individuals to move away from larger cities into semi-rural areas as a preferred location to live. We also note that there continues to be, in the current agricultural economic crisis, a displacement of population away from an exclusive dependence on a farm enterprise to a situation in which individuals may combine a part-time or full-time job with an agricultural enterprise. For these reasons development of new businesses in rural areas can provide a benefit by providing full-time or part-time employment.

Many states have developed state-funded programs to attempt to enhance the development of new enterprises, with many of them related to so-called "High-Tech" industry. One of our defined objectives at SDSM&T is to assist in the economic development of the community and of the state by encouraging such enterprises.

What are the mechanisms for trying to accomplish this objective? Several approaches are possible. To give an illustration, some of the members of our Chemistry department recently developed a chemical that provides significant increases in root growth after exposure to the newly developed chemical. This process, recently patented, is now being licensed to a new South Dakota firm. This new enterprise will provide an additional increment of employment which will be a benefit to the community and to the region. The benefits from the additional economic activity generated by the new business are in addition to whatever benefits may be generated by the enhanced production from the use of the patented chemical.

A further illustration can be given. Traditionally, most of the students that have come to us at the South Dakota School of Mines and Technology have been from South Dakota. Unfortunately most of them have to leave the state after graduation in order to obtain technical employment. We would like to change this situation so that the state of South Dakota could have the benefit of the brainpower of these young people. It is our belief that in the long-run the encouragement and development of "home grown" industries from technological applications can ease this problem. It also has the potential for enhancement of the economic base of the state. As an example, one of our graduates in the 1930s left the state and founded a firm which grew large enough to merit a listing on the New York Stock Exchange. This graduate recently provided a substantial gift for support of the development of a course in Entrepreneurship and Technology on our campus. I recently surveyed the young people who were students in this experimental course and found that many of them had the long-term objective of becoming owners and managers of their own businesses. I am hopeful that we can encourage the idea of entrepreneurship in technology in our students and faculty. Such efforts will stimulate economic opportunities in a rural state and will complement our traditional industries of agriculture and tourism.

Various approaches have been used by different states to attempt to stimulate development of new enterprises. One common theme in these developments is the effort to try to develop working partnership arrangements between higher education faculty/staff and the local business and industry. I am encouraged by efforts currently under way by South Dakota businesses, through the South Dakota State Chamber of Commerce, to attempt to develop improved relationships between South Dakota business and South Dakota higher education.

Past policy in our state has been to give top fiscal priority to the teaching functions of college faculty. This is an important priority, but the past failure to provide opportunity for individual faculty members to be more than classroom teachers--to be "Professors"--has hindered economic development. In order for a faculty member to be an effective link between new developments and research on a college campus and industry and business, time must be provided for such interaction. I am encouraged by the current indications of interest from South Dakota businesses to develop more active partnerships between South Dakota higher education and industry. I believe that these efforts can assist in developing new businesses of a high-tech nature and provide additional employment opportunities for the people of our state.

In an era of deregulation, a state with a low population base probably has a built-in cost disadvantage in communications and transportation as compared to more densely populated states. What are our competitive advantages? On many occasions we have been fortunate to have high-level corporate officers from major companies as our commencement speakers at the South Dakota School of Mines and Technology. One of the comments that frequently comes from these individuals in my conversations with them is their comment that they prefer to hire individuals for their companies that come from an agricultural background because of the remnants of the work ethic are more common in an agricultural state than in other states. The presence of this work ethic constitutes an advantage that exists in South Dakota. It is my hope that we will see continued research in agriculture, and continued development of job opportunities in new high-tech industries. If this happens technology can make a useful impact on agriculture and benefit the citizens of South Dakota.

The South Dakota School of Mines and Technology is celebrating its 100th anniversary this year. As we enter our second century it is my hope and my expectation that we can continue to provide quality educational programs, and that we can also make a useful impact in enhancing the economic development of the community and the state.

NOTE: I thank Dr. Ray Hoops, President of South Dakota State University (SDSU), and Dr. Mylo A. Hellickson, Professor and Department Head of Agricultural Engineering at SDSU. for the helpful conversations I had with them during the preparation of this statement. Responsibility for the statement, is, of course, that of the author.

Senator ABDNOR. Thank you Mr. Schleusener for those good messages because I think that needs to be made a part of the record that all is not hopeless by any means, and there is a lot to think about for the future. Hopefully these young people here from the schools will soon be going to college and planning their lives get hope out of that too. It is a great place to be in South Dakota and we still think we have a lot to offer. Is Dean Dale Clement here, someone out of the University of South Dakota School of Business said they would be here, is someone here from that group? How about the South Dakota Department of State Development, that is a tourism group? How about Mr. Ray Ring from the University, is he here? If not, we have a number of people who have requested to be heard and I am going to jump into the health care issue. As I talked to those people in that industry I know it is of great concern to all of us, and when you talk about rural America, it is a subject that can't be ignored. Rural health care throughout South Dakota and our reservations throughout the State.

So, at this time, I want to call David Custis from the Wall Clinic, is he here? He is from the Wall Clinic Assistants Program which has done a great job of taking up some of the needed care for South Dakota. Thank you for coming all the way from Wall. The next one I am going to call on after you is Frank Drew of South Dakota Hospital Association, and Mr. Val Farmer of the West River Mental Health Association, and Mr. William Bergman of USD, if he is here.

STATEMENT OF DAVID CUSTIS, R.N., ON BEHALF OF THE WALL CLINIC

Mr. CUSTIS. In an attempt to provide the rural areas of South Dakota with health care, the 1974 legislature, by legislative mandate, charged the USD School of Medicine with the task of developing the planning of a 4 year degree granting medical school that would place emphasis on family practice.

Further concern for providing health care to the rural areas of South Dakota promoted the 1975 legislature to appropriate $60,000 for the development and implementation of a program for physician extenders. In its charge the University of South Dakota School of Medicine developed a new program under the direction of Dr. Robert Hayes, the plan called for the physicians extenders to be located in Wall, Murdo, and White River with Dr. Hayes supervising all three clinics. Community support for the physician extender program was overwhelming and a local volunteer, non-profit committee was quickly organized to handle the business affairs of the proposed clinic.

Financial support for the project not only came from the Federal and State government, but also from community minded citizens, organizations, and local government. Over the 10 year history of Wall Clinic many things have changed. The most significant thing being that the Wall Clinic has grown from a government supported entity to a nearly self-supporting organization as providing rural health care to a community that cannot afford the fulltime service of a doctor or a hospital. The clinic now contracts privately with Dr. Robert Hayes, a supervising physician. We are made up, we have a nine person voluntary board that meets monthly to assist myself with the financial affairs of the clinic.

In rural America there is a definite maldistribution of doctors. Health care providers tend to go to large cities where they can make a standard of living suitable to their life style. Thus clinics like Wall, Murdo, and White River had to be set up to meet the medical needs of western South Dakota. This past year the Wall Clinic saw 3,689 patients. The area in which the clinic serves is a 6,000 square mile area. Many of these people have to drive over rough gravel roads to get to our clinic.

However, you never hear of any complaints because without the clinic in Wall, many of them would have to travel anywhere from 70 to 100 miles one way to see a health care provider. When I first came to Wall I received a call late one night from a mother who wanted me to see her little girl who was complaining of a severe ear ache. I asked her how long it would take her to get to the clinic. She stated about 1 hour since they lived 45 miles north of Wall. Dr. Hayes and myself treat both young and the elderly, but I believe the best service we provide is the care for the elderly. Here is an age group in which it becomes more and more difficult to travel 50 to 60 miles one way to see a doctor, specially when they do not have any means of transportation to take them there.

Not only do we provide care at the clinic, but will make house calls when they are unable to get to the clinic. Last week on a cold snowy night I traveled to Quinn, a small town 5 miles from Wall to see an elderly man suffering from the flu. The daughter thanked me over and over, because without us being here it is really tough living out in no where. The summer time when the tourist season is in a full swing in Wall, the tourists come to the clinic with anything from sore throats to congestive heart failure. They are also very thankful for the clinic in Wall. So much that last summer I saw a patient from Chicago with a sore throat, they had heard about the clinic from a neighbor who had been in the clinic a month earlier.

In rural America we have been reading about ambulance services closing down because of not enough volunteers, in Wall we have a crew of 10; 81 hour EMT's and 1 specially skilled ambulance technician. I can honestly say this crew has saved countless lives and it is frightening to hear where these small towns are losing this vital service.

Another important part of rural health is the home health care provided by our public health nurses and home care such as what Rapid City Regional Hospital has set up for our area. This helps people to stay in their own homes as long as possible. So in conclusion, rural health does have its problems. The closing of small town hospitals and the retiring physicians who are having a hard time finding someone to replace them, but there is a bright spot and that is the rural health clinic set up some 10 years ago to meet the needs of rural America.

We thank the U.S. Congress and our own State legislature for setting up rural ambulatory care clinics which are providing a most valuable service to rural America. Thank you Senator. Dr. Robert Hayes, he wanted to thank you, he could not be here to testify, but this has become a very valuable thing to the western South Dakotan, and if you are ever in Wall, coffee is still a nickel at the drug store. So feel free to stop please.

[The prepared statement of Mr. [illegible]ustis follows:]

Prepared Statement of David Custis

The Rural Health Concept

In attempting to provide the rural areas of the State of South Dakota with primary health care, the 1974 South Dakota Legislature, by Legislative mandate, charged the University of South Dakota School of Medicine with the task of developing and implementing a four-year degree granting Medical School that would place emphasis on Family Practice.

Further concern for providing health care to the rural areas of the State of South Dakota prompted the 1975 Legislators to appropriate $60,000 for the development and the implementation of a program for physician extenders.

In its charge, the University of South Dakota School of Medicine developed the new program under the direction of Dr. Robert Hayes. The plan called for physician extenders to be located in Wall, Murdo and White River with Dr. Hayes supervising all three extenders from Wall.

Community support for the physicians extender program was overwhelming and a local volunteer non-profit committee was quickly organized to supervise the business affairs of the proposed clinic. Financial support for the project not only came from the Federal and State government but also from community minded citizens, organizations and Local government.

Over the ten-year history of the Wall Clinic, many things have changed. The most significant thing being that the Wall Clinic has grown from a government supported entity to a nearly self-supporting organization that is providing Rural Health Care to a community that cannot afford the full-time services of a doctor or hospital.

The clinic now contracts privately with Dr. Robert Hayes as supervising physician and the nine person volunteer board of directors meets monthly to assist Physician Assistant, David Custis, with the financial affairs of the clinic.

The magnitude of operating a rural clinic, 50 miles from Rapid City Regional Hospital, and the challenge it presents can best be summarized by Mr. Custis.

In Rural America there is a definite maldistribution of doctors. Health Care Providers tend to go to large cities where they can make a standard of living suitable to their life style.

Thus, clinics like Wall, Murdo and White River had to be set up to meet the medical needs of Western South Dakota.

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In the rural areas we have been reading about Ambulance Services closing down because of not enough volunteers. In Wall we have a crew of ten 81-hour EMT'S and one Special Skilled Ambulance Technician. I can honestly say this crew has saved countless lives and it is frightening to hear where small towns are losing this valuable service.

Another important part about Rural Health is the Home Health Care provided by our Public Health Nurses and Home Care such as what Rapid City Regional Hospital has set up for our area. This helps people to stay in their own homes as long as possible.

In talking about Wall one cannot leave out that Wall Drug is not only a souvenir shop but also has a well-staffed Pharmacy who also serves a 6,000 square mile area.

So in conclusion, Rural Health does have its problems; the closing of small town hospitals and the retiring physician who is having a hard time to find someone to replace him. But there is a bright stop and that is the Rural Health Clinic set up some 10 years ago to meet the needs of Rural America.

We thank the U.S. Congress and our own State Legislature for setting up Rural Ambulatory Care Clinics which are providing a service to Rural America.

Senator ABDNOR. Thank you for that outstanding report. I am well aware of the work you and Dr. Hayes do, I watched you start out at Wall when I was still in the State legislature almost. Any way, you have been there a long time. This points out something, I would like to have people back East and in Congress know that people spend an hour to get health care, and that is probably almost the average out in your country.

Mr. CUSTIS. When I told a rancher what I was going to do, he said good, and go tell Senator Abdnor I drove 60 miles to see you and if I went to Rapid I would have to drive 140 miles one way. So they have their problems, and they have their problems with ranching, but there is one bright spot they do see.

Senator ABDNOR. This is the kind of information we need and I hope we get it from other parts of the United States. Everything is not perfect where it might be. They often have an abundance of medical technicians and doctors and everything that goes with it in large big cities, but rural America has been skipped in many cases. Next witness is Frank Drew. I guess Mr. Drew is not here. Is Mr. Bill Bergman here? Good. From the University of South Dakota.

STATEMENT OF BILL BERGMAN, PROFESSOR OF BUSINESS STATISTICS, SCHOOL OF BUSINESS, UNIVERSITY OF SOUTH DAKOTA, AND DIRECTOR. HEALTH ADMINISTRATION PROGRAM

Mr. BERGMAN. Senator Abdnor, folks, colleague Jerry Johnson, I don't know exactly what hat I am wearing here today because I have played in a lot of arenas. I am a native South Dakotan, I am a professor of business statistics at the School of Business, I am the director of the Health Administration Program. I didn't really come with a prepared statement, but 3 minutes ago I heard my name mentioned and I whipped out one. I would like to give this statement.

I am here to express my pleasure, Senator Abdnor at your rural initiative, I offer my support. As I said, I don't have a prepared statement but I am here to say that I accept your invitation to join the Abdnor task force on the rural economy. Whatever expertise I have developed over the years I volunteer to help put in to perspective the needs of my native South Dakota, and of rural America. With that objective in mind, and listening very hard to what is being said here today, we are hearing South Dakota speak today, building on the past, cognizant of the present, working together, we will develop strategies, we will cope with this adversity, we will adjust, and we will survive. South Dakota has truly one outstanding asset, that is this highly trainable, highly adaptable people. Let's get our confidence up. Working together, we can do it, thank you.

Senator ABDNOR. Thank you. Our next witness is Paul Stahl of Bridgewater. I believe the next witness following Stahl will be Joe Mieran.

STATEMENT OF PAUL STAHL

Mr. STAHL. Thank you Senator, we are planning on getting down to the real issues. I am a 62 year old farmer from McCook County, I started farming on a regular basis when I was 13 years old. Today I have six sons farming with me. Farming has always been a hard life. There are many things we can handle. We can handle drought, flood, and many things we can handle, but I would like to talk about some things we can't handle.

We can't handle unfair competition, unfair competition from foreign governments. Let me explain. My son with his father-in-law has an annual registered sale in Bidman, ND. In 1983 I went to that sale, there were many Canadian buyers there, and they made three real good sales, the Canadian buyers on these bulls. They found out they couldn't get the bulls home. It took 90 days to take those bulls in to Canada. Then they went and inquired how fast these bulls could come in from Canada, it took 24 hours. I oversee sort of seven farms.

In 1984, let me say we are hog farmers mostly. We sold our hogs to Morrell for 24 years. In 1984 we came to Morrell and backed up, we couldn't unload the hogs. They were full of Canadian hogs, we had to find a different market. That went on all summer. McCook County hadn't fed any fat cattle practically for 10 years, not because we are inefficient feeders, we have the corn, we produce the calves and can feed them, why can't we feed them? Your tax laws, Senators, prevent us from it. Not because you were inefficient, same way with the company putting up the big hog operation in Nebraska, we can't compete with it.

Senator ABDNOR. Thank you, Joe Mieran.

STATEMENT OF JOE MIERAN

Mr. MIERAN. First of all I would like to commend you for two of the bills on the table S. 371 on farm credit and S. 244 which deals with tax laws in farming. I think these two are issues that are very vital to the farm economy. First of all, many farmers need credit, and I think this will help along with that.

Second, we can not compete with tax loss farmers, people who make a lot of money in other business and then use farming as a tax loss credit. I think another vital issue is that we need, we cannot compete with foreign government subsidies. You mentioned France before, I think it is somehow our government needs to subsidize us. If it is not a direct subsidy, it has to be some type of law that will enable that. Another thing I think that farmers may need is some legislation, however it might be, to encourage more small farmers so that there is more revenue generated in the small communities and I think that will in turn benefit your small communities, thank you.

Senator ABDNOR. Thank you Joe. I just want to say that we are working hard on those two particular bills, and I couldn't agree more on the foreign competition. We all know one of the biggest problems we have is that we start out at a 30 percent disadvantage when the product is sold overseas because our products are so high in relation to other countries, this is a serious disadvantage. It is something that has to be paid attention to if we ever hope to get back in the export market. We are falling off. Our balance of trade is going to be a deficit of over $140 billion this year. It wasn't too many years ago when it was a plus. So, it not only affects agriculture but the whole economy of the country. That kind of a deficit takes away a lot of jobs in this country, I can assure you. So, we appreciate your comments. The next gentleman is Bill Schraeder. Is Bill here? I understand Ms. Pat Overweg and Mr. Schraeder want to come in together, that is fine.

STATEMENT OF PAT OVERWEG

Ms. OVERWEG. Senator Abdnor, Bill and I would like to share with you some of our concerns with our local FmHA. We believe that FmHA in Aurora County has acted irresponsibly. We went in there to apply for a loan and we were told that there was no sense in us even applying, they couldn't help us any way. This forced us in to a chapter 11 where we lost all of our cattle and all of our hogs. The FmHA people were very rude. When you go in there you are made to feel worthless, you are made to feel ashamed. You are always called a poor manager and in the next breath he will tell you that he realizes the problems out here are adverse weather, low prices, and high interest. The FmHA people are not informed of their loan limits. When we went in in November and applied, he told us he said you are over the limit, and the limit is $100,000. In April 1984 the limit had been changed to $200,000, and our supervisor didn't even know it. Our supervisor has showed favoritism.

In our county it is not what you know, but who you know. There is money available to certain people and a lot of it. We have got proof of this by mortgages where he said he was only allotted $300,000 for the year and we found $500,000 that he loaned against land alone to six people. And it ranked from anywhere from 2 years to 40 years. They don't know their appeal procedure. If it wouldn't have been for Les Mehlhaf we could never have met with our county committee. It took four phone calls that day to appeal back to the committee.

Our supervisor fought us all the way until Les finally called Washington twice and finally called back and he said these people have the right to meet with the committee. We met with the committee, but by then it didn't do no good because our supervisor had gotten to them first and all they did when we walked in was look at their clock and their watch and tell us we had 30 minutes to go over everything that happened in the last 2 years. They have never informed us of our deferral rights. They have never, or the rights to reamortize anything.

I went to a meeting at Oldham and I talked to Mr. Gunderson, I should say I was very upset when I talked to him and very mad, and I told him what was going on and he said he would meet with me. So I went up there and met with Dexter Gunderson, and we walked into this room, sat down and we had tape recorders going and he pointed to me and said you are going to do all the talking, you have made some serious allegations here and I want them brought out. At present was our supervisor Larry Colbridger, and our District Man, Mel Simeck and Mr. Gunderson, and Mr., oh, I can't remember the administrative official's name, and myself, and Monte Haugen and my husband, and I did most of the talking and when I got done, I asked Mr. Gunderson what was the result or if they wanted to ask any questions and he told us it was none of our business, that it was an administrative problem and that he would handle it. Nothing has been done, we were never told what we were going to do, if we can get in to FmHA or not.

Last year in our community we had three suicides, and due to the stress on the farm, and I am afraid we are going to have more to follow if something is not done, what is happening out there is very serious and I don't think our boys in Washington realize how bad it is out here. We have got to keep these young farmers going, and as farmers like my dad's age that are being done in and it is not right. I am not up here to give any ideas on how to stop it, I guess I am not smart enough for that, all I want to do is farm and keep my farm. I have a petition here, Bill and I have, that was signed by over 150 people in our town or our county that the supervisor Jake Garen, a lot of people were scared to sign it because they were afraid if he seen the signatures on there that they would be in the same boat we are in. We feel that that is why we can't get a FmHA loan is because he knows we put this petition out, and we would like to turn this in as testimony. Thank you.

Senator ABDNOR. Thank you, Pat. Mr. Schraeder.

STATEMENT OF BILL SCHRAEDER

Mr. SCHRAEDER. Senator, my statement is pretty much the same as Pat's. I have the petition here. We were cautioned this morning not to look for villains, unfortunately there are villains out there, and I think in our own situation here, an investigation would be in order of our county FmHA office. Any help you can give us there, you know, would sure be appreciated. I was once told that county supervisors get a bounty for all farmers that they can liquidate before they are in so far that they can't clear their self. I approached Dexter Gunderson with this, asked him directly, he said no, he says you have that wrong, that is not a bounty, he says that is a bonus for office management. Whatever you call it, you know, the results are the same either way. Whatever terminology you use. So here is the petition and I will submit that to you.

Senator ABDNOR. Thank you, Bill. It is hard to realize this sort of thing is happening and we will certainly try to check into it.

Mr. SCHRAEDER. This is why I would like some type of investigation to find out exactly what is going on and if FmHA is setting up to work against us or for us.

Senator ABDNOR. Are most of these people people who have had business with the FmHA or are a lot of them supporters?

Mr. SCHRAEDER. We found it easier to get people in town to support it and sign it than we did farmers, because the biggest reason we got from farmers to not sign it is we have to go into FmHA to apply for services, we don't want to cut our own throat. Most people in town who signed it said I have nothing directly to do with FmHA, but his own attitude strikes me wrong, you know.

Senator ABDNOR. Is it more of an attitude or was he unfairly judging these? I mean sometimes people can't say no pleasantly when you have a problem. The people who have these problems really have been eligible in most ways for the loan?

Mr. SCHRAEDER. A lot of the people I talked to out there when I was visiting with them said never again would they ever go into that FmHA office. They went into inquire about what help might be available to them, and they said when they left there they felt, you know, really put down, they said they would not subject themselves to that kind of treatment.

Senator ABDNOR. Thank you very much. I appreciate having that. It is easy to prepare a bill for everybody's problem, they give you something to talk about. But one of the bills I am preparing I feel very strongly about. I started reading about Secretary Block's partners borrowing $600,000 from FmHA and I found out that even people in South Dakota add up to $1 million and $3 million in loans. I tried to remember how FmHA got started and what it was all about, so I had my young agriculture legislative man work with the Library of Congress, we have been researching the FmHA law ever since it was put into being and the changes which have taken place. I think it needs restructuring and brought back to what it was originally intended for. We want to make sure we have the right form and bill when we do it. This is ridiculous, this is not for people to speculate, it is supposed to be something to help people get through a tough time. For a million dollar loan you can make a lot of small ones that would serve a very useful purpose. We are looking into that, and we hope we can find support for that, because that bothers me and I want you people to know this. I know how you feel and how emotional this problem is, but I have been hearing comments from the people on committees who handle this, including the Chairman of the House Agriculture Committee. The secretary and his partners maybe rightfully so, for the big loan the gentleman currently was asking for is $600,000. The only thing wrong is that it was legal, with the way we are administering the program it was perfectly legal. I wish I could tell Mr. Delagrasso to quit complaining, and long ago put some legislation in to restructure it. Well, we are going to, and I hope we can come out with a workable bill.

Ms. OVERWEG. I would like to put something on to what I said. We have 8 hours of tape where we have taken it in and talked with our supervisor. We have proof to what we said. There is 8 hours of tapes on there where he tells us that we have 33 percent return on our farm plan, and I am going to tell you just like he said it, he said hell, Ivan, this thing looks too good and he kicked us out. He said if all farmers had 33 percent return on their investment, we wouldn't have the problem we have today, and we were done.

Senator ABDNOR. You say you know Les well and we can stay in touch?

Ms. OVERWEG. Yes.

Senator ABDNOR. Its been brought to my attention that we need to have a break here. I think that the people have prepared a lunch in the back. Wait a minute, let's make this announcement. We will recess for about 30 to 40 minutes. We will come right back and take witnesses from the audience.

[A lunch recess was taken at this point.]

AFTERNOON SESSION

Senator ABDNOR. We will bring the subcommittee back to order. Our first witness to start off the afternoon is Lois Kirschenman.

STATEMENT OF LOIS KIRSCHENMAN

Ms. KIRSCHENMAN. I do appreciate this chance. We have made a lot of phone calls in the last, I would say the last 6 months. We have called a lot of people trying to get their ear, trying to tell them there is a problem out here, so we do appreciate this.

Senator ABDNOR. Thank you.

Ms. KIRSCHENMAN. I, myself, am just a farmers wife. It never occurred to me that I would ever be in a position like this to have to beg for food for our family, and the right to produce food for a Nation and the world. We have four children, and the oldest one is 14, she drives a tractor, she did most of the field work this fall, the youngest one is six, we have had to go to burning wood, to keep our home warm because we do not have fuel, we cannot afford to buy more fuel, so we have a stove in the basement and she carries in the wood. There is a lot that we as family farmers do just to survive.

There are two things in our Nation that are realities. The first thing we heard a lot about at the inauguration and that was the homeless in Washington, DC. It is not just the farmers that are having problems, it is not just rural America. There are homeless people in Washington, DC, there are homeless people in all our large cities. We are appalled that this happens to a Nation that is strong. If there are already homeless people in our cities, where do the farmers go when they are homeless. It is happening. I know of two families that have been evicted. I know of another one they are trying to evict, I know of another one they are trying to sell his machinery. I know of a fourth one who is not in default, is worth three times more than he owes and he has been asked to sell his sows and his cows. The only income that man has. His only cash flow, PCA asked him to sell them. To what end, I don't know. He is producing. He is producing grain to feed them with, he is producing red meat to sell, but PCA says you are going to have to either go to another lender or have an injection from your father-in-law to keep your farming operation going.

We have, I don't know if you would call it a hot line, somethimes I call it a desperate line. It was never set up to be a hot line, and I really never knew when people started calling that it would run in to this problem. People call us that need food. People call us and say I am going to be evicted, we are being foreclosed upon, what are my rights. As a result of this, I have studied this, and I have come to one conclusion from this morning, and it changed my complete line of speaking to you and it was this, the economists of this State say that it is going to be a continuing trend.

We should have more industry, but our industry is laying off people by the thousands. I don't know what the answer is. The producers of food are producing, and it is being sold and it is being used and it is going right on down the food line, and the farmer cannot manage? Why? Is it because somebody else is making the profit on his food. Food costs go up, but the farmers costs or the farmers return for that food does not go up. I am telling you the problem. Now, one more thing, we pay interest. Our businesses pay interest, our Government pays interest, where does the interest go?

I really would like someone to tell me. Where is that interest going?

In 1976 we were told interest was 8 percent, we expanded into a hog operation at that time. By 1981 we were paying 19 percent interest on 3 month notes. Everything 3 months that came due, and it was put on to another note. And that note charged interest on the interest. That is compounding of interest. We are poor managers. There was only one way to continue farming, and that was to borrow the money one more time. The interest continued. We couldn't pay off that note because our expenses weren't met. Even though we were producing a thousand 220 pound butchers a year where before we were only producing 300, we still couldn't pay it. We had to borrow on a debt to pay a debt. Is that possible because we are poor managers?

The banks flourished, they built buildings. PCA flourished, they built bigger buildings. The industry, the businesses in our State flourished because the farmer was producing—maybe I should get back to the purpose of agriculture, the purpose of a sound credit system for agriculture. It is declared to be the policy of Congress recognizing that a prosperous productive agriculture is essential to a free Nation, and recognize the growing need for credit in rural areas, that is the purpose for credit.

Now, we heard a story this morning that touched our Senator Abdnor's heart because I could see it on his face. Those people are still on the farm, they are struggling, they are burning wood because they can't afford oil. Now, we are wondering about our lenders. Our banker came out, we were very apprehensive. He reassured us, he said I know when you go under we go under. But he said your equity is gone, but he knows also that our equity drops 50 percent. He knows that, and he says he can't understand why.

Now, we are the producers of food in our Nation. Congress recognizes that producers of food are the basis of a strong economy for a free Nation. Now, we have—it is a heavy thing to answer this phone day in and day out and know that there is nothing we can do, we can't go to our courts and get justice because there have been laws made that say that a farmer has no rights, and we have been trying to fight the farm credit system, and I feel like that the things that we have seen in our Nation in the last 4 weeks are things that should be investigated.

I think our Federal credit system should be, have a grand jury investigation in this, and I have here something from Congressman Daschle that was put over the air that said that Federal Intermediate Credit Bank of Omaha is in bad trouble financially. A week later came over the news farm broadcast, Reno, public affairs specialist, the farm broadcasters are to give this and it says PCA is in a very good position financially, Federal Land Bank is in a good position financially, and the farmers cannot send a farm broadcast and say this is the way it is, but PCA and Federal Land Bank can.

I also have here it is a declaration of policy for Federal Land Bank and PCA's, they recognize that there is a problem out here, they also tell us there is a policy of forebearance. We have not experienced this policy of forebearance in our area. I told you about those people that have been foreclosed on that weren't in default, the people that have a good equity and do not have a chance to work themselves out of it, that isn't forebearance. Now, I realize I have taken my time.

Senator ABDNOR. I know your story needs to be told, I don't want to cut you off, it is just that I have a whole stack of other people.

Ms. KIRSCHENMAN. I know you do, we appreciate your effort of coming out and talking to us, but I would urge you Senator Abdnor to get some farmers in there on that board. I realize the economists can see the situation, but the family farmers are the ones who have lived with it, who are suffering with it, and maybe they can help you to deal with this.

Senator ABDNOR. Heaven knows we need all the help we can get to get this message across. You tell a very telling story and I wish we had some quick answers for you. Hopefully in the days ahead something is going to help the situtation. I did introduce legislation in that I am getting a lot of interest in which would allow farmers to keep income for living expenses for planting their crop before FmHA is allowed to receive payments from the farmer. We have hopes for that, and I realize it is just a small part, but everything helps in this kind of a case.

Ms. KIRSCHENMAN. How do we pay it back, we can't meet our expenses, we have no hope of paying it back. I appreciate this, there is something being done so we can plant, but why should we plant?

Senator ABDNOR. You make a good point.

Ms. KIRSCHENMAN. If we can't pay it back. I mean if the food producers stop producing.

Senator ABDNOR. You are in Hutchinson County?

Ms. KIRSCHENMAN. I am in Yankton County.

Senator ABDNOR. You were flooded out 2 years in a row.

Ms. KIRSCHENMAN. Yes we were flooded out this spring.

Senator ABDNOR. I know prices are horrible and depressing but those floods probably caused more problems than anything especially without a crop.

Ms. KIRSCHENMAN. Yes.

Senator ABDNOR. Thank you.

Ms. KIRSCHENMAN. I want to thank Les Mehlhaf for sticking in there and listening to us.

Senator ABDNOR. He is a good man, he is real good at that. Thank you. This next gentleman uses a Cody, NE, address but I know he lives in South Dakota because we have business with him from Washington ever since I have been back there, let's hear from Garth Barnes who has come all the way from Cody.

STATEMENT OF GARTH BARNES

Mr. BARNES. Thank you, Senator. I would like to say it is a privilege to be here right now. Specially a privilege to follow this lady that was just up here before me. While listening to her, I pulled a sheet out of my files, a short paragraph I would like to read, it is dated January 23, 1985, it is a letter to the PCA and NFBA presidents signed by John Harling, president and chief executive officer of the Omaha FICB. Paragraph here the Omaha FICB continues in a sound financial situation. At the end of 1984 the FICB had $208 billion in net worth which is up from $193 million in 1983. Earnings for the bank in 1984 were $17 million. This strong financial base and good earnings illustrate the Omaha FICB continues to have the financial strength to deal with the problems at hand.

I am a rancher from about 40 miles southwest of Mission. I will speak from that basis today. Number one. Number two, I am also President of an organization of PCA shareholders of north central Nebraska and south central South Dakota. In that organization alone I will be representing 600 plus shareholders that are in the process of being liquidated or had business with the O'Neil and Valentine PCA's. We, to put a little frosting on the cake on top of the PCA liquidation, we had two banks go under down there within about 14 days at the same time. Of those two banks, 70 percent of the loans were not accepted by the new banks that come in. Over 50 percent of the loans in the PCA were not accepted by other PCA's.

The loans that were accepted by the PCA's were on a 90 day basis and they had to furnish additional collateral to be accepted. On top of that they had their 10 percent stock in the old PCA which was frozen, they had to buy another 10 percent stock in the new PCA, so to get a loan it was 20 percent stock. We are faced down there within the next 90 days to 6 months with mass or numerous replevin orders, liquidations, and such. I have spent many a night up to midnight in the position I am in, people calling me and talking to me. And they were saying one thing, help. It is desperate. We need the help now. We are not in a crisis situation, we are desperate.

Another thing, I think the farmer is getting very sick and tired of subsidizing the consumer. It is an old game where we have got our backs to the wall. Something has got to be done on that. So we either have got to have higher prices, and you know the story on that, or lower interest rates. I think something can be done on the interest rate. What I would like to propose now, I am not an economist, I would like to propose it, it come through an FmHA officer I visited with several weeks ago, I am not about to mention his name. I would do it privately with you. He said we are not using the money we get efficiently. He said what I would suggest to you is an 8 percent interest subsidization, and I put this in myself I figure it is on a 5 year program.

Before you could be eligible, I am looking at this as an emergency thing, before you would be eligible it would require three bank turn downs so not everybody could go in and get it, it would be only the people that applied at banks and been turned down. So, I think very quickly you could realize what the effect of each dollar would be instead of guaranteeing a loan as we do now using up the entire dollar on an 8 percent interest subsidization, you would increase the value of your money actually used by 12½ percent. I will move on into the farm credit system.

We have been up and down this road tremendously in the last 30 days or so. On February 2, I met with myself and 12 other farmers met with FICB banks in Omaha for approximately 2 hours, a meeting that was sponsored by the Iowa Farm Unity Coalition, no media there, we presented our demands and so forth and hopefully made some headway. On the farm credit system itself, it is very far off track. It is operating outside of its policy, its rules and its regulations.

Number one, I would like to see all PCA's, FICB get professional independent audit, now they hire their own accountants, they do their own inside audit job. Like our own PCA we are having our liquidation, we have only the facts they are telling us, we feel we have a right to have those facts.

Senator ABDNOR. This is over all the PCA's, this group of people, this was from several States you had this meeting?

Mr. BARNES. Yes, the State of Iowa basically and Nebraska. Your Omaha FICB has the States of Iowa, Nebraska, South Dakota, and Wyoming, so it is this area also.

Senator ABDNOR. You are calling for the whole system to be audited?

Mr. BARNES. Yes, the entire system across the country. They have got new loss sharing rules that was put in about the first week of December. Where all of your FICB banks can bring their assets together and bail out individual FICB or PCA's, we would like to see those rules implemented and assured they are going to use them. If necessary, Congress should recapitalize its farm credit system. It would cost a lot less now than it will down the road, because it is teetering. The information I picked up in the last 2 months, we started this on December 7, where I started getting involved, and I will tell you I have taken a whale of an education in the last 60 days. The entire system, they say is in trouble. OK, the entire system across the country had a $9 billion capital asset this last year, they had profits between $425 and $450 million.

I don't think there is any excuse for any PCA to be liquidated anywhere, specially with these new rules. Like this lady before, I will call for it too, I will call for a top to bottom congressional investigation of the farm credit system. It is directly responsible to Congress. Now your credibility gap, I would say 5 years ago almost every farmer that walked into a loan officer and he walked in there, and there were no credibility gaps, but in our country now it couldn't be wider. I mean it, it takes up bankers also. This is what hurts. We would like to call for a bill of rights, FICB bill of rights, documents would include the rights of appeal, the rights of forebearance, the rights to get our personal file, our own personal files that we have signed that we have done business with the PCA, they are not allowing us to get them now, liquidators will not.

Senator ABDNOR. Why is that?

Mr. BARNES. They say no. We have met with them, I have been on committees that have met with them, and we, I was in conference with attorneys Saturday, and there will be a legal process, I think we can get them through legal process, but those are files of our own. We need them to go out and get other loans, see. Also same thing with the by-laws, corporate by-laws. I had a gentleman in part of this organization the other day that did get his, it cost him 50 cents a page to get them, the PCA liquidator in Valentine, NE charged him 50 cents a page. Could have gone to main street in Valentine and got the same thing done for 15 cents on a commercial basis.

We tried to get the membership list to call meetings of this organization we are in. The laws state that somebody like a sale ring operator should be able to get them. We in fact tried to get them ourselves, we had a sale ring operator try to get them, couldn't get them. We have a letter to the FICB president in Omaha with about 50 signatures on it, we will be turned down I am sure on that. They have terminated our stock, no notice.

Just briefly on this young and beginning and small farmer policy, those people are supposed to report to the subcommittee in Congress on their activities, they sent two GEO reports there saying they have this implemented. John Harling, president of the FICB in Omaha stated at that meeting on February 2, the law was too vague, had no teeth in it, could not be used. In fact, I had my oldest son 26 years of age apply for one of these loans, he got turned down, and we could not pick up a copy of this policy. On liquidation policy on these liquidators, there is no set policy, and this again I was questioning John Harling on this directly, there is no liquidating policy rules or regulation. The liquidator is sent out there under contract to collect money under any way, shape, or form he can do it in.

So I feel we definitely need a handle put back on to these people, complete investigation top to bottom, and put the farm credit system back on track where it should be, because it is teetering and if it goes under, lord help this country, we are in trouble. St. Paul FICB bank is planning expected two thirds less farmers by 1995, and since 1981 there has been 60 PCA's either liquidated or folded either through liquidation or so called efficiency reasons. Now I thank you for coming Senator, and we will appreciate everything and anything you can do for us, because we need help.

Senator ABDNOR. We appreciate your comments and I know from working with you in the past—would you mind staying at the mike a minute.

Mr. JOHNSON. Was it my understanding that the meeting you were in Omaha, and I am a little bit familiar with that, was it correct that the farm credit system at that time had indicated, and I understand there are three parts to it, all right, and because of the change in the distribution of the losses or how they share the distribution, was it my understanding that for the first time they were going to be forced to go in and borrow from the Federal Reserve?

Mr. BARNES. There was no comment by any of the officials there they were going to have to borrow. In fact, we asked why they didn't refinance or ask for refinancing, and they said that wouldn't be good for our bond market.

Mr. JOHNSON. I agree with you the credit system needs a lot of work, the farm credit system.

Mr. BARNES. It does, and I hope we get it because I want to see it survive.

Senator ABDNOR. We will be very interested to see what we come up with. Mr. Jahr has been assisting me, I think you visited with him once before and we will certainly keep up and try to keep on with it, on this latest proposal to come out of Washington by Secretary Block which was done by regulation and not by law, but where will they help if your one PCA closes down, will they help you start up with another bank? Start up finding another lending institution for the individual?

Mr. BARNES. I haven't seen anything yet, I haven't studied it completely.

Senator ABDNOR. Well, it is short term, but immediate. I know it doesn't go far enough, I am not trying to suggest in any way it does, but in some cases I know they are supposed to be doing that. Have any of you fellows had a chance to look at that? I think what it does, they give a guarantee loan to up to 90 percent of the new loan the bank would take over and also would require the write-down of the interest.

Mr. BARNES. These guaranteed loans are fine for some people, first you have to have a bank that will go with you.

Senator ABDNOR. I have not had a chance to see how they are administered, but the intent is to help a person, who because of a bank closure or PCA closure, has nowhere to go. I don't know how successful it will be, but if it did do that it would be of some help right now, wouldn't it?

Mr. BARNES. I am sure.

Ms. KIRSCHENMAN. If they qualify.

Mr. BARNES. You have to qualify on the old rules, I know I checked into this on the older rules, first off you had to have a bank. We couldn't make that petition ourselves, the bank had to make the application for the guaranteed loan, that killed us right there.

Senator ABDNOR. Thank you.

Mr. BARNES. Thank you very much.

Senator ABDNOR. Delwin Schmidt of Parker.

STATEMENT OF DELWIN SCHMIDT

Mr. SCHMIDT. I am finding out that Minnesota and Iowa are more lenient on the State FmHA level than the State of South Dakota is of taking some of these private lenders like the banks, for example, or a bank loan, or PCA loan, and they want FmHA to help refinance that loan, and right now my understanding is it is entirely up to the discretion of the State director of the FmHA. Am I correct in making that? Why don't we have a unified system, because down in Iowa there are banks, after banks, after banks are helping their lenders who are in trouble financially through FmHA guaranteed loans. In South Dakota they are just dead set on making any loans.

Senator ABDNOR. I appreciate knowing that. Our biggest complaint lately was that if you never had a FmHA loan previous to today, you are not likely to get one. If the FmHA has the funds to loan out they give priorities to those that they already have a loan with. I think that is pretty general because I have heard this in Washington.

Mr. BARNES. In Winner I was told by the FmHA officer down there they had $151,000 for I think it is a four county area down there this next quarter. Right over in Valentine, NE they brought all of the money from the State, basically all of it in and they had up into the millions. That is between the two States.

Senator ABDNOR. Thank you, I am sure there is a certain amount of discrepancy on the part of the State. We can find out more about it.

Mr. SCHMIDT. What I was wondering, is Iowa getting and probably southern Minnesota because of perhaps more farmers in deep trouble because of excessive land prices, a drop of 50 percent in land prices, are they getting, they have access to more money out of Washington than we do here in South Dakota?

Senator ABDNOR. You are asking me a question I can't tell you. Off the top of my head, I thought it was prorated out probably on an equitable basis.

Mr. JOHNSON. That is my understanding too. I think they have a formula, haven't they, that they use.

Senator ABDNOR. That was my understanding. Of course, I suppose if they have disasters they find additional money, but other than that I am sure the money that goes out is on an equitable basis. They may be able to pump other dollars in for emergency basis, I am not sure. I think we better move on. Chester Sorenson.

STATEMENT OF HON. CHESTER SORENSON, MAYOR, FREEMAN, SD

Mr. SORENSON. Senator, as mayor of Freeman, I sure want to welcome you and your staff to Freeman, and as a concerned citizen, I think you know that the small towns and cities in this great State of ours needs all the help that we can get, and the only way we can get that is through our agricultural people throughout the area. Freeman has always prided itself as an independent community working together for progress.

Although we have benefited from Federal and State grants and loans programs through the different environmental protection agency and the law enforcement assistance and outdoor recreation and many, in the last 12 years the town has had $1 million for the city in 12 years. And we rely on our growth in this city to keep us going. Although the later years now, the population growth since 1950, which was 54.9 percent, but much of this growth has been found to be non-working in population. For example, more than 42 percent of our residents are over 60 years of age. In 1970, this percentage was only 36 percent.

The problem we face in the lack of employment and opportunities is to keep our younger workers here. According to the information provided by the Business Research Bureau since 1980, there have been 6 fewer businesses in Freeman. Increased population and fewer jobs do not help our situation at all. I want to emphasize our community has been able to take care of itself for the most part, but we can't continue when most areas around us are declining. What I am referring to here is the agricultural situation. Our area is very much agricultural dominated. Main street businesses rely heavily on the support of our rural neighbors for our continued existence.

When agriculture suffers, the local economy suffers. If the agriculture economy could improve, more revenue would be available to the city. Higher taxes and levys could be set and as a result these projects could be accomplished in a timely manner of a local level without depending on State and Federal aid. To accomplish this I would like to see higher fair prices for agricultural products, interest rates also need to be stabilized to allow the farmer, the businessmen to operate with a reasonable margin of profit. This can be done while reducing the Federal deficit, but one important consideration to be made is that reducing the deficit should not be just a means of shifting costs to the local governments.

If the Federal Government is going to cut or eliminate assistance through Federal programs, such as EPA, then a corresponding reduction in regulations governing these programs should also occur. Local government and taxpayers cannot afford to operate under some of these strict regulations with the limit taxes basis and the revenues available to them. If we would lose our revenues like is coming to our town for every year for us to rely on fixing our streets and so on and so forth, Senator, we will not be able to operate because in these years the only place we can get our assessed money is on the taxes of the people. If we keep taxing these people to try and keep what has went down, we try to build back, it just isn't going to be there, and this thing all has to work together like people working together.

Many times I was in Washington and met with Small Business, and I asked them one thing, on one project I was going to do, if I would run that project and we had the capable people in our city to do this work and comply with the code, would we have to have all this high priced of engineering and so on and so forth to make this project work? And they said that is the only way we can loan money in a grant of any kind. Well, I said I will tell you one thing, if that is the case, we will do it some way on our own, because the project that was 1 bid here was $19 million more to just operate this 1 project. We got the job done without it. We can do this by working together. Everybody is working with tax money, we have got to try and get together and keep it where we need it.

In conclusion, I would like to repeat that our city's future will be determined by the agricultural community. Any relief that can be provided to this sector would indeed be beneficial to the town of Freeman. I want to thank you very much.

[The prepared statement of Mr. Sorenson follows:]

Prepared Statement of Hon. Chester Sorenson

SENATOR ABDNOR, I AM CHESTER SORENSON, MAYOR OF FREEMAN. I WELCOME YOU TO FREEMAN AND I APPRECIATE THE OPPORTUNITY YOU HAVE GIVEN US TODAY TO SPEAK OUT ON OUR VIEWS OF THE RURAL ECONOMY. AS MAYOR, BUSINESSMAN, AND RESIDENT OF FREEMAN, I AM WELL AWARE OF OUR LOCAL ECONOMIC SITUATION AND ITS SIMILARITIES TO OTHER COMMUNITIES THROUGHOUT SOUTH DAKOTA.

FREEMAN HAS ALWAYS PRIDED ITSELF IN BEING A SELF-RELIANT, INDEPENDENT COMMUNITY THAT WORKS TOGETHER FOR PROGRESS. ALTHOUGH WE HAVE BENEFITED FROM FEDERAL AND STATE GRANT AND LOAN PROGRAMS THROUGH THE ECONOMIC DEVELOPMENT ADMINISTRATION (EDA), ENVIRONMENTAL PROTECTION AGENCY (EPA), LAW ENFORCEMENT ASSISTANCE ADMINISTRATION (LEAA) AND THE BUREAU OF OUTDOOR RECREATION (BOR, NOW KNOWN AS THE LAND AND WATER CONSERVATION FUND), TOTAL ASSISTANCE FROM THESE PROGRAMS HAS BEEN LESS THAN $1,000,000 IN THE PAST 12 YEARS. OUR CITY HAS RELIED ON ITS OWN RESOURCES AND NOT OUTSIDE ASSISTANCE TO STIMULATE LOCAL GROWTH.

HOWEVER, RECENT SOCIAL AND ECONOMIC CONDITIONS HAVE HAMPERED LOCAL EFFORTS TO BRING ABOUT GROWTH. WE ARE ONE OF THE FEW COMMUNITIES IN OUR AREA TO HAVE EXPERIENCED A STEADY AND SIGNIFICANT POPULATION GROWTH SINCE 1950 (54.9%), BUT MUCH OF THIS GROWTH HAS BEEN FOUND

IN THE NON-WORKING AGE POPULATION. FOR EXAMPLE, MORE THAN 42% OF OUR RESIDENTS ARE OVER 60 YEARS OLD. IN 1970 THIS PERCENTAGE WAS ONLY 36%.

ANOTHER PROBLEM WE FACE IS THE LACK OF EMPLOYMENT OPPORTUNITIES TO KEEP OUR YOUNGER WORKERS HERE. ACCORDING TO INFORMATION PROVIDED BY THE BUSINESS RESEARCH BUREAU, SINCE 1980 THERE ARE SIX FEWER BUSINESSES IN FREEMAN. INCREASED POPULATION AND FEWER JOBS DOES NOT HELP OUR SITUATION. I WANT TO EMPHASIZE THAT OUR COMMUNITY HAS BEEN ABLE TO TAKE CARE OF ITSELF FOR THE MOST PART, BUT WE CAN'T CONTINUE WHEN MOST AREAS AROUND US ARE DECLINING.

WHAT I AM REFERRING TO HERE IS THE AGRICULTURAL SITUATION. OUR AREA IS VERY MUCH AGRICULTURALLY DOMINATED. MAIN STREET BUSINESSES RELY HEAVILY ON THE SUPPORT OF OUR RURAL NEIGHBORS FOR CONTINUED EXISTENCE. WHEN AGRICULTURE SUFFERS, THE LOCAL ECONOMY SUFFERS. IF THE AG ECONOMY COULD IMPROVE, MORE REVENUE WOULD BE AVAILABLE TO THE CITY, HIGHER TAXES AND LEVIES COULD BE SET, AND AS A RESULT NEEDED PROJECTS COULD BE ACCOMPLISHED IN A TIMELY MANNER AT THE LOCAL LEVEL WITHOUT DEPENDING ON STATE AND FEDERAL AID.

TO ACCOMPLISH THIS, I WOULD LIKE TO SEE HIGHER, FAIR PRICES FOR AGRICULTURAL PRODUCTS. INTEREST RATES ALSO NEED TO STABILIZE TO ALLOW THE FARMER AND BUSINESSMEN TO OPERATE WITH A REASONABLE MARGIN OF PROFIT. THIS CAN BE DONE WHILE REDUCING THE FEDERAL DEFICIT, BUT ONE IMPORTANT CONSIDERATION TO BE MADE IS THAT REDUCING THE DEFICIT SHOULD NOT JUST MEAN SHIFTING COSTS TO THE LOCAL GOVERNMENTS.

IF THE FEDERAL GOVERNMENT IS GOING TO CUT OR ELIMINATE ASSISTANCE THROUGH FEDERAL PROGRAMS, (SUCH AS EPA WASTEWATER TREATMENT PLANT CONSTRUCTION PROGRAM), THEN A CORRESPONDING REDUCTION IN REGULATIONS

GOVERNING THESE PROGRAMS SHOULD ALSO OCCUR. LOCAL GOVERNMENT AND TAXPAYERS CANNOT AFFORD TO OPERATE UNDER SOME OF THESE STRICT REGULATIONS, WITH THE LIMITED TAX BASES AND REVENUES AVAILABLE TO THEM.

IN CONCLUSION, I WOULD LIKE TO REPEAT THAT OUR CITY'S FUTURE WILL BE DETERMINED BY THE AGRICULTURAL COMMUNITY. ANY RELIEF THAT CAN BE PROVIDED TO THIS SECTOR WOULD INDEED BE BENEFICIAL TO ALL OF FREEMAN.

I THANK YOU FOR YOUR TIME.

Senator ABDNOR. Thank you Chet. You gave a most sensible, reasonable speech that needed to be said. I am sure if we in Washington get off the backs of the communities they could do a lot of their projects for far less. We have seen that many times. Some of us have tried to eliminate the Davis-Bacon section in the projects which would immediately reduce the costs of many of the projects within itself.

I remember reading where in Sioux Falls if they didn't have to follow that section they could have built their jail on their own without any Federal help for less than they are doing. If they could have taken that money, they would have brought the costs way down. It has something with the EPA. I will be most interested of reminding those people that there has to be a change in the laws. The man is coming up for confirmation and there is a lot of pressure. I am not picking on labor unions, but they make sure that he stays in there and they do a very effective job of making sure that the Davis-Bacon section stays in. The architects I suppose like to be able to design things, and when they get through, these things get pretty complicated. But you are making an excellent choice.

I remember out at Faith they built their own rodeo ring instead of using Federal dollars because they could do it for less, and I certainly commend you and your people for going ahead on your own. Thank you very much. Is Clarence Skye here? Is Dennis Peterson? Is Tim Giago here? They are from way out West. Is George Bauder here? Some of these people asked for time I guess this morning, and I didn't get around to get them because we tried to bring in people who signed up while they were here too, but George, is he here? Bob Miller, is he here? Is Dilbert Hillman here?

STATEMENT OF DILBERT HILLMAN

Mr. HILLMAN. Yes; Senator and distinguished guests, I may be out of order here because I am really, I am here to present this program to the Government, but this program here is a dairy program that won't cost the Government any money at all. Now, I realize we have all sat here and asked for programs to help people, and rightfully we should, because we are all taxpayers and agriculture is in one terrible shape.

We feel that government should help us out now, but here I have a dairy farm program that we presented to the, in Yankton, and one of your boys was there, and we feel this is a program that will help government without costing them any money. This dairy program is nothing but to give back or give the right to dairymen to control their own programs, to take care of their own surplus, but we have to work with government and through government to make this program work. So, I am going to submit this to you, Senator, if you will read it, I sent you a tape on that in Washington, and this is the written dairy farm program here, and it won't cost government anything.

It is a chance for the farmers to really do something for themselves that will be a long term program. This isn't just a short term thing, a one fix for you. This is to control the dairy industry of America. And we have to work with government through our ASCS offices, but actually it won't cost government a dollar on taking care of the program. So, Senator, I will submit this dairy farm program to you.

Senator ABDNOR. Mr. Hillman, I will be happy to have that. I wish I could come up with something like that for all of agriculture, I don't know how yours works. Let me ask you how much support among dairy people do you find for this?

Mr. HILLMAN. We have had one meeting on this so far, Senator, and that was in Yankton, and we had, I don't know how you would say it, 99⁹⁄₁₀'s percent support for this program, and ever since that meeting I have had probably 200 calls asking me if we have got to any Senators, and to present this to them. We can't afford as dairymen to run up and down the road. We don't have the money nor the time.

We have to work with government and let government help us with this program. But it has been accepted by everybody except the big dairy co-ops. Now they haven't rejected it, but they have their sights set on corporate dairying, and the way the trend is going, why I guess we can't blame them, but really this is for the family size dairy, and this is one thing that we feel is wrong. All our big dairy co-ops and other ones, they started out to help the dairyman which was real fine and good, but now they are geared to help the dairy co-op instead of the dairyman. This will put control back into the dairyman's hands without costing government.

Senator ABDNOR. Thank you. I know it is an impossibility to get everyone in one direction on something. This is a good example of what often happens, we take a piece of legislation like that and we get in a big fight among the dairy people, and the city cousins of ours get to wondering what do they want out there, they don't know themselves. If there is one thing we have to do in this crisis is come out somewhere and some way together. I think that is extremely important. For instance, when labor comes to town, they don't come fighting among themselves and have two or three organizations going off in different directions, they speak with one voice when they come in, and it is fairly effective. I know farmers are very independent, and I admire them for it.

I was a farmer for a long time myself, but I think in this crucial time with this situation we have, we have to try our uppermost to get everyone agreeing somewhat on what we are going to be doing here and what we are asking for or trying to promote. Self help, and programs that don't cost the Government ought to be a winner. I often think about how in this country people get their food the cheapest by far of anywhere in the world. Somewhere, a long time ago, we developed a cheap food policy. In this food policy people buy their food for 16½ percent on the average of their take home pay. This can't go on forever. I don't know how we can convince the 97 percent of the people that they ought to pay more.

I recall a number of years ago, in the sixties when I was farming, we had on the wheat program certificates for the share of the domestic products that were sold domestically, the people who bought wheat for processing had to buy a certificate, therefore they gave an extra price.

That is a little bit what the European Community does, they pay more—their food costs run between 22 and 28 percent, but I guess they found out what it was like to go without food any more, but they do subsidize, and people pay a lot for that, and they dump everything in excess on the open market. That makes it very difficult for us even when we have an extra dollar. These are problems we have to try to solve, but you have an awful big push by consumers organizations that don't like to have to pay any more than they think they need to, but we will keep plugging away, I promise.

Mr. SORENSON. This program absolutely is self-supporting. There is one more thing I would like to say, this program was through the FmHA in Yankton or a guy I know in the FmHA, he took all the dairy cows that was in the FmHA and projected these cows against the pounds, and of all the statistics and sent it in to the University of South Dakota and they run it through their computers, and the man came back or when it came back in 3 years time this thing, the cost of this program is 50 cents to the dairyman, and in 3 years time it will drop to a quarter at what the University of South Dakota tells us, thank you.

Senator ABDNOR. Thank you. Tom Neuberger.

STATEMENT OF TOM NEUBERGER

Mr. NEUBERGER. Thank you for inviting me to speak, Senator Abdnor. I have been doing a lot of reading in the farm magazines lately on the stress on farmers, and I think I read in one of these articles that we should relax a little bit, which we haven't done today, so if you will bear with me I will tell you a goose joke.

There was one of these city cousins that spent a lifetime working on a city job, he thought that was pretty romantic out on the farm, I think I will retire early at 55 and go out there farming. He had a pretty good nestegg ready and so he did. He went out in South Dakota and bought some land, he had the cash to pay for it, he moved out there, he got there, he says to the wife well now what do we do.

The other guy is farming and milking and raising hogs and beef and all this and that, and what will we do. They couldn't decide what they should do. His wife says go around and talk to the farmers, they are honest people around here and stuff, they will share with you where the money can be made out here. They went from farm to farm and asked every farmer, what would your suggestion be that we do to start a farming here. They all gave him something different, one guy says you milk, the next farmer says you raise some hogs, and the next farmer would say you raise some beef and all this and that. So everything was different, but they had one piece of advice that was common to every farmer. They would say and raise some geese. And raise a few geese.

So the guy and his wife they went back home and they started to kind of digest what they had heard in their visit with neighbors and stuff, they thought about this. Everybody gave them the same advice about raising geese. So the guy said to his wife, he says we may be from the city, but we aren't dumb. If they are all raising geese, that is where the money is, so we are going to raise all geese and nothing else.

He marches into the hatchery and orders 1,000 geese here in town, and the guy in the hatchery had never heard of such a thing. He thought what is this guy going to do with 1,000 goslings, but he didn't say anything. He came home and a week later he walked back in and the hatchery man saw him come, heavens what is he doing back here. He said I would like another 1,000 of those goslings. The hatchery man was beside himself but he didn't want to say anything so he let him go with 1,000 goslings.

A week later he is back in the door again, he thought yeegad here is the guy, what does he want. I will take another 1,000 goslings. About that time the hatchery man couldn't contain himself. He said I just can't contain myself any longer, he says I just have to know what is going on, he says either you are having awful good luck or awful poor luck that you are buying all these goslings. The city cousin said, you know, to tell you the truth he said, I am having awful poor luck. Me and my wife can't figure out whether we are planting them too deep or too shallow.

We think there are some blessings that come from the problems we have in this agriculture industry. I think most South Dakotans have heard of the goose mobile. We went out there to solve a little problem we have, we didn't solve it, but we thought we had lots of friends and neighbors out there in South Dakota that are willing to help a fellow man out, and we found a real tangible way to market geese here in South Dakota.

We found a market that we just didn't know existed in our backyard. People out there, I can remember going in to towns and people would come up, a lady would come up and want to buy a goose, and said if you hadn't come by I don't know where I would have ever gotten a goose for Christmas, so we found a market out there, it is not a big one. I think it is something that will probably keep the goose industry going here in South Dakota until better times are ahead, but is going to really put, this here exporting thing is really going to put a hold on the goose industry, because we are not going to be able to raise them like we did before, until things improve so we can get back our domestic market the Canadians have taken over because of their importing and those things.

As we goose people met last week, at our annual meeting, we just came to the conclusion that the whole agriculture problem, not just our little goose industry, the problem is this here importing and exporting deal. Jim alluded to the $250 billion trade deficit. I don't care whether you are talking about geese, or talking about beef, or cars, or what, it is a big total that comes in to this exporting thing, or importing, coming into this country, and we people that are here this afternoon, and many have testified about having financial problems, it is all for the same reason, because you have more going out, more going out than there is coming in, and I don't think our country or our government is immune to that either. So we keep on with this $250 billion deficit, I tell you we are going to commit financial suicide. Financial suicide.

We worry about that defense budget, my goodness, the Germans aren't going to have to lift a rifle to control this country, because we are just going to go down the tube. We are going to be worthless. We can't defend our self because we are financially bankrupt. So, we have to turn around this export thing, and somehow get it so that we have a plus coming our direction, or it is going to be fatal for our country, and I am concerned about the dairy people and the goose people and all that, but that is peanuts compared to what is going to happen to this country if we don't get this trade deficit turned around.

Thanks, Senator Abdnor, for letting us come. By the way, I want to tell you about this man, how he really helped us with this goose project. His staff bought geese, they gave geese to charitable institutions, he wrote a press release on the subject just by itself, and we are really thankful for what Senator Abdnor did in our goose project there, and I know he is doing things in Washington to try to button the hole up there again so we can stop some of the importing of geese coming in.

Senator ABDNOR. Thank you. Two things, in foreign trade we have a gap, and all the agreements are agreed to. I hope some day we have, in another area, it doesn't come out of the Agriculture Committee, but it is an extremely important problem. Then in addition to that the high value of our currency in this country it is putting us out of business. If somebody needing grain can buy 4 bushels from one country at the price where they can only buy 3 bushels from us, you know where they are going to go.

There are a lot of countries that have it for sale these days. I assure you the United States is losing out as a percentage of the total world export market in grain, and this is a problem. They tell us, and I think we have to put up a very sound argument, that part of the problem is this tremendous deficit.

Today with cities and agriculture in all areas, the number one problem with them is trying to get the deficit under control. I doubt if anyone ran for office in 1984 that didn't use that as a theme in running for office. And this mood includes both Republican leadership and Democrat leadership. I mean Congressman Wright, majority leader of the Democrats in the House, Bob Dole in the Senate, the whips and the minority leaders in both sides, and most of the Members—all say the goal is to cut $40 billion to $50 billion off the budget. Now, I can tell you the spending from the budget of the President is all but dead. That isn't going to go, but I do think that the word that floats around Washington in both Houses of Congress is that the cuts that are to be made have got to equitable. They certainly aren't in the budget that the President sent up. Three percent of the cost of the budget goes for farm programs or farm supports, but 12 percent of the deficit reduction could come out of agriculture.

We can't allcw that and I assure yc they won't. I don't want tc fool anyone in to thinking that isn't going to be a major subject. The trade deficit will figure prominently, too. Foreign exports are pouring in to this country bec use they are the bargains that the American consumer is anxious to buy. I am sorry to say, we are letting it happen and some way we have to remedy this situation. I have a hunch these three (Messrs. Johnson, Edelman and Smith) can tell you a lot more about it than I can. Let me wind up by saying because I come here to hear from you, our problem in agriculture lies in a lot of the committees other than just agriculture. We talked about the deficit reduction bill, the farmers tax loss bill in agriculture, that is not the Agriculture Committee, that is the Ways and Means and that is Finance. We talk about rapid depreciation that put everybody in the hog business a few years ago, because they can write it off over 5 years, that comes from another committee.

This trade problem comes from another committee. So all our problems are not going to be solved and come out of the Agriculture Committee, it is in a lot of committees around there that the farmers don't have the influence they should have to start with.

We have a Budget Committee. I am holding my breath that budget resolution was put in by the Congress, they didn't think in 1972 the President ought to have the authority to impound money and dictate. So they took it away because they said Congress could do better. Well, I don't know, we have done worse it looks like every year since. But they passed that, that Budget Committee is extremely powerful. They set the amounts of money you can spend on each committee.

Agriculture is going to be told what they can spend from the Budget Committee, that if the budget is adopted, the budget coming out of that committee has to be adopted by the whole House and the entire Senate, but those are the confinements and we stay within those parameters, because the law says that, and the Congress did it to themselves, so there are many ramifications, and we talk about what we are going to do to help agriculture, that it involves more than just that one committee I guess I am trying to say. Well enough of that. I would like to call Dean Clement from the Business School at the University.

STATEMENT OF DALE E. CLEMENT, DEAN, SCHOOL OF BUSINESS, UNIVERSITY OF SOUTH DAKOTA

Mr. Clement. Thank you, Senator, it is nice to be here. The old saying goes if it works, don't fix it. I think what you are finding out today is there are a lot of things that we have that don't work. I think we have a bunch of people who are very hard working, very well meaning, quite frankly I think an awful lot of us are very confused, we hear an awful lot about prosperity. Every time you pick up the newspaper you hear a lot about it, inflation is down, the strong dollar is good, the world markets are falling apart on us, and quite frankly, prosperity has pretty much passed up mid America.

Our prices for our lands are down, our valuation of our products are down, and I guess to a certain extent we are part of the casualty for inflation control. I would just like to make just two points very briefly in passing. As you look at the communities that we have around, ladies and gentlemen, I want to recognize that when you are looking on main street probably at least two out of every five of those businesses that start will go bankrupt or go out of business within the first 5 to 6 years. So there is a very heavy attrition to that, and we might sit back and say sit back and my, my that is too bad, but all you have to do in Freeman is go in to Sioux Falls on Saturday afternoon in the Mall and see where your dollars are going to be spent. You have to take the good will of the people living in that community to be able to support that community to make it go.

A lot of my friends, for example, in Vermillion are complaining about the dollars of sales which they are not getting right out of the Vermillion community and if you go to Yankton, or Sioux Falls, or Sioux City you see the same people spending their dollars elsewhere. The point being these communities we have are going to be whatever our people make out of them, and it is going to mean we might want to shop at home the same as you are looking at a world market, because without that how are your local business people going to survive. From the farm standpoint, I am certainly not an expert, I grew up on a farm in Missouri with my grandmother, she lived there because they lost the farm in Iowa during the depression, I have a cousin down there who is about to lose another farm.

So I guess that is the reason I am not in farming, I am not smart enough to stay there to go broke with them, but I think you know if you look at it, I don't think we are looking, Senator Abdnor, from anything from Washington that is necessarily going to keep everybody in business, but to a certain extent I think we are suffering because we are just too darn productive, we are too efficient. To survive, at least 65 percent of the wheat in South Dakota has to be sold overseas. The best thing that has happened to agriculture in the United States has been a world wide drought someplace because its only been during those years that the world market has picked up enough to absorb our surpluses. So to an extent you know we are kind of a confused people.

We are told to produce more, yet when we produce more the prices are not there, and yet we go to church on Sunday and hear about how the world population is starving, so what the heck do we do, go out and produce more I suppose. Then you also have the confusing element, we see a lot of programs where we are putting lots and lots of money in to people who don't work, and yet at the same time you have a lot of people here producing the back bone of our economy that are working that are threatened with going out of business.

I guess the only thing I would say is something simply has to be done, and that we are a confused group of people not knowing which way to turn. We are trying to sell our product to the world market, it simply is an imperfect market, everybody else has a different market structure than ours, we are not competing fairly, and interest rate at best is only a short term solution. Somehow there has to be a better world market because we will never be able to consume what our people can produce, we are simply too efficient and we don't consume enough. Thank you.

Senator ABDNOR. Thank you, Mr. Clement. Do you think this country could afford to take itself out of the world competition. I mean go back to strict controls and produce only for enough for this country?

Mr. CLEMENT. No, we can't do that because we don't consume enough to keep a third of our farmers in business. In the free market person on the world, but on the other hand it is frustrating as the devil because our people aren't competing equitably on the market, the rules aren't fair. If everybody was on a free market, it would be one thing, but our farmers are competing basically in a market that is not fair for them.

Senator ABDNOR. The old saying that we are the most productive and can produce cheaper than anyone causes a concern when we see Cargill is about to go down to Argentina and contract for 225 tons of metric wheat for $2 a bushel. Even with the cost of shipping and all, they are still buying it for under the $2 price.

Mr. CLEMENT. Most of the hamburger comes from Argentina beef because they don't like our fed beef. Basically to a certain degree we are somewhat a victim because we are efficient and produce well. That is kind of a sad testimony on the world market. Sometimes I wish instead of subsidizing it they just buy it and give it to somebody to get it off the market. But that is not a good solution either.

Senator ABDNOR. I don't know. I don't know if these people are interested in hearing this. I think we are going to have to do more like we did with Egypt earlier this year. When we finally recaptured the wheat flour market from Egypt, we lost it completely to Europe. The company that made the sale sold it so cheap they lost their shirt but we made it up with CCC grain, and, of course, France is still crying. If that is the way we have to move grain, those are the kinds of things we may have to look at.

Mr. CLEMENT. We are our own worst enemy, we lost most of our milling companies to the east and west coast. A lot of you people don't grow calves any more, but a lot of them go south to be fed out. South Dakota is somewhat like an under developed country of the world where we have a lot of natural resources but where we export most of it and put very little value added on it. There is a lot of characteristics of that. The only place you find small farms in South Dakota now is around your major cities where you have manufacturing plants that a person would work part time and farm 160 on the side. I doubt, I hope we are, but I doubt if our small communities are all going to be successful enough to attract new industry to reverse that. It is a tough problem.

Senator ABDNOR. It really is, thank you very much. Bob Ellefson.

STATEMENT OF BOB ELLEFSON

Mr. ELLEFSON. Senator Abdnor, today it seems like we have heard many, many problems. The one that I would like to address is the one that I think is bothering an awful lot of people and it is the immediate one. We have talked about it before, but we haven't gotten anything done.

I think the immediate need we have in agriculture is working capital at prime rate or lower. The capital need is both a short term problem and a long term problem. It is important that capital of the United States is shared with the agricultural industry. Commercial banks are withdrawing a portion of their loans from agriculture, partially due to the pressure from bank examiners. Agriculture needs a new source of funds now and also for the future. Agriculture is suffering from low prices for their products, high interest rates, devaluation of assets, and the loss of export markets because of the strong dollar. We are now experiencing an outflow of working capital, and this will make agriculture fail in just about every facet including the banking industry. The FmHA is an organization that if properly funded could help solve the problem.

It is truly unfair and unjust that an industry as large and as important as agriculture should face ruin due to the lack of working capital. South Dakota is a very cash poor State, and we need additional capital now. I don't know how I can impress on you, and people have talked to Washington and they have requested help, you know, for a long, long time, and now it is coming, push is coming to shove, and the banks are just extremely worried that the bank examiners are going to come in, take over their banks, they are cutting operating loans, and turning down some people that they shouldn't be turning down. We actually, Senator Abdnor, out here right now as a society are eating each other up. It is really sad, because it shouldn't be happening. The United States has plenty of capital, but we are not sharing in that capital. We have until like the 1st of March to solve this one. Thank you.

[The prepared statement of Mr. Ellefson follows:]

PREPARED STATEMENT OF BOB ELLEFSON

2-11-85
Freeman

The immediate need we have in agriculture is working capital at prime rate or lower. This capital need is both a short term problem and a long term problem. It is important that the capital of the United States is shared with the Agriculture industry. Commercial Banks are withdrawing a portion of their loans from Agriculture, partially due to the pressure from bank examiners. Agriculture needs a new source of funds now and also for the future.

Agriculture is suffering from Low prices for their products, High interest rates, devaluation of assets and the loss of export markets because of the strong dollar. We are now experiencing an outflow of working capital and this will make agriculture fail in just about every facet including the banking industry. The FHA is an organization that if properly funded could help solve the problem. It is truly unfair and unjust that an industry as large and as important as agriculture should face ruin due to the Lack of working capital. South Dakota is a very cash poor state and we need additional capital now.

Bob Ellefson
RR2 Box 68
Mitchell. S.D. 57301

Senator ABDNOR. Thank you, Bob. Sometimes to convince other people in Washington of the seriousness of a problem you almost have to have the disaster occur. I am not just speaking in this instance, I have seen other instances, and I do think that they are waking up some. Even the Secretary backed off a bit and the proposal he has is better than nothing by far, but we would like to see it much more liberal than what it is. There are pieces of legislation floating in Congress, and I am convinced something will come of it, but we are not the fastest moving bodies down there when we do start moving.

Mr. ELLEFSON. Tomorrow there will be a lot of people in Pierre just to support this concept. What I think is really disappointing, though, is when the Government knows there is a problem and they hear it and just keep turning a deaf ear until something bad has to happen. That is really sad. I think the administration today is very insensitive to what is happening in agriculture, and we can feel no other way about it out here, but maybe tomorrow if a lot of people show up in Pierre and we get national recognition, maybe somebody in Washington will say maybe we need to do something.

Senator ABDNOR. It will be another strike for the effort. I know Minnesota had one and Nebraska. This is one that follows and there will be others. I guess that is what it is going to take to wake up the entire countryside to the problem. Thank you very much. Mr. Cecil Byg.

STATEMENT OF CECIL BYG

Mr. BYG. Thank you, Senator Abdnor and ladies and gentlemen, and the other guests, distinguished guests that have been in front of me. Today before me I should say. Before I begin I first want to introduce myself because there may be a little controversy here. I have been with the Farm Bureau most of my adult life, and they aren't here today and I have resigned my position on the county board in Minnehaha County last fall, not that there is any great philosophy difference, but they aren't quite as aggressive as I would like to see them be. Specially in his time of need. I guess I have to give the Farmers Union credit for my being here.

Back in 1932 when we had the same kind of times that we have now, why they went to Pierre and cut out all the Government subsidies and at that time the Secretary of the Farm Bureau was the county agent, so that kind of put a crimp in the Farm Bureau and we didn't get it going again until about in World War II. So, so much for introduction. I guess I don't believe in asking the Government for help, but I think there is one case maybe we do. That is on account of the inflation.

About in 1979, if you figured a dollar against the ounce of gold I think it was worth about 3 cents, and today it is worth about 11 cents. For anybody that weent into business or bought anything in 1979, 1980, 1981, has to pay back about $3 for each dollar that they borrowed, and I guess that is the problem that we arfaced with. I guess you fellows have to work with the assets there you have in Washington, I guess about all you have is surplus farm products.

Maybe you will have to make a deal with them to give them to the farmers like another PIK program and then to give them to the unemployed to get the, so you can save some money on the welfare, and maybe the thing will work out that way, because it kind of reminds me of the State of South Dakota in about 1920, there was some allusion to that. We had the State Treasurer, we had the rural credits, they were in the hail insurance and the banks were guaranteed by the State. I remember my mother going to get the paper to see how they were coming, the Governor says we will have an audit and see, put this on rest that they aren't going broke, that we have plenty of money. So they got the assets together and took them to the rural credits, they audited that, that was all right; that night they moved them over to the next agency, they audited that the next day and that was good; and the next day they moved them over to the bank guarantee fund and they audited that and that was good. So the Governor says we are on sound financial footing.

That is about the way the whole country is nowadays. We went, I thought back in 1960 I quit farming and cut back because I thought we were going to have a shake out, and we are going to have to do something, but then Kennedy was assassinated and we went from that probably to worse, and if you get a chance to read a new author I run on to, Eric Hofer, it is a common name around here but he was born in New York and he educated himself in California, and his works, and he said the white people on this planet have been without leadership for the last 20 years, and I guess maybe that is about, I would agree with that part.

He said the aryans really took us in the seventies there, and he said they were the ones that sold the slaves over here a hundred years before, and I guess we probably all sold ourselves into slavery again, but another little story about these fellows coming from Washington to liquidate these farmers. This happened in the farm credit back in the thirties. Maybe you have all heard it.

A fellow come out with his book from Washington and was going on the farm looking things over and he run onto a goat, and he looked through his book and couldn't find out what it was. So he sent word to Washington, they had the western union at that time. He said I found an animal out here has long whiskers, forlorn look to its face and a bare rump, what is it and what is its value? Well he got a telegram back from Washington, he said that is the farmer and he has no value. I just put down I guess a few notes here today.

Senator ABDNOR. Don't get me wrong, I love stories, but we have to get moving. There are a lot of people that want to testify.

Mr. BYG. I can't see you with my glasses on, I can't read without them. I guess one problem is I think that the Government is feeding more people now with food stamps and welfare than what the farmers are, and there is another thing that I think we farmers have been brain washed, they tell us we are only 3 percent of the population in this country so we don't have any political clout. Well, I want you to remember there is only 3 percent of the people in Russia who are communists too, they are just a little more aggressive than we are, that is what the only problem is. We produce this food, but we got ourselves sold into slavery so we sell to the Government and they do whatever they want to with it, instead of us having the control.

I used to go to a Sunday school. I believe there is a petition in the Lords Prayer that says give us this day our daily bread. Now we have most our people going to Washington saying give us food stamps or give us welfare. It is a new way, a new God.

I guess—on the balance of payments, I had a thought on that, too. I think that is, the businessman and others have alluded to that. I think that is brought about, well the way I saw it in the sixties and somewhat into the seventies, the laboring people wanted more wages, and the Government went along with it, they got more wages, the Government got more taxes, they could have more Government programs, they could get more votes, and now we have our industry so high priced out of the market that we can't sell anything abroad.

The only people that can sell anything abroad is the American farmer, because we are competing directly with the slaves of Russia or any other place, but we have to cut these costs down in Government and all over, and I guess we are going to have to do like the Farmers Union done in 1932, just cut a lot of that stuff off. Thank you for the time, I probably had a few more thoughts here but that is enough for today.

Senator ABDNOR. Thank you, Cecil, you have a real knack of giving your message with a little humor, that is nice to have. Duane Poppens of Lennox? Some people have left. Is Duane around? Leonard Wiens? We are going to take a 5 minute break here just to let this gentleman's fingers get a rest for the home stretch. So we will take a 5-minute recess.

[A short recess was taken.]

Senator ABDNOR. We will come back to order. Leonard, sorry to hold you up.

STATEMENT OF HON. LEONARD WIENS, COUNTY COMMISSIONER, HUTCHINSON COUNTY, SD

Mr. WIENS. Senator Abdnor, my name is Leonard Wiens, I am a Hutchinson County Commissioner and a businessman from Freeman. I would like to talk to you a little bit on the county level and a little bit on the business level. I will begin with the county. Hutchinson County is predominantly agriculturally oriented with 95 percent of the county acreage in farm land, and it is easy to see that what happens when sector of our economy has a significant impact on the residents of the entire county.

The problems facing our county are similar to other counties throughout the State. Our population has steadily declined. We have had a 16 percent decrease between 1960 and 1980. We are becoming an older population, 28 percent of our people are over 60 years old, and the State average is 18 percent. Our percentage is 28. Our median age is or the median age is 38.9 and this ranges from age 38 in Dimmock and age 65 in Olivet and the State median age is 28.9. We have had a decline in farm owners of minus 15.9 and of farm operators minus 34.1. We have an increased unemployment rate, in 1979 we had 2.2 percent and in 1983 wenow have 4.2 percent. An increased number of these people are entering the labor force.

We have had a decrease in sales tax licensed businesses. In 1980 there were 453 businesses in our county that had a sales tax license. In 1983 we have 411. So we have lost almost 50 businesses in these past 3 years. These items indicate that although we have fewer people, a greater percentage of the population is entering the labor force, only to find fewer job opportunities. Many of these new entries to the job market maybe from farm households and are looking for a second income to help make ends meet and to preserve their family farm.

Currently we do have a project in progress which would provide a boost to the economy of the entire county. The B–Y Water District is expanding in to Hutchinson and will provide quality water to both rural and non-rural residents throughout most of the county. That water system is an excellent example of a Federal, State, local partnership that works. Jobs will be created in agricultural production and processing. The $7 million, the $7 million construction payroll will also provide a boost to the local economy. The reason I bring this up, Senator, is that in order for this project to be successfully completed, continued Federal assistance through Farmers Home Administration and Housing and Urban Development will be needed to help leverage local dollars.

Other programs that have been of assistance to the local economy include the Small Business Administration Loan Program. These programs also require a significant commitment by the private sector. Elimination of agencies such as SBA will only hurt rural area businesses and may adversely effect entire communities.

An item very close to my heart, Senator, is revenue sharing. As we all know, revenue sharing is another source of aid to rural areas. These funds represent a return of local tax dollars to communities. The loss of these funds would require an increase in property tax to fill the gap. Local property tax increase replacing of Federal tax will only hurt small towns and our rural counties. Hutchinson County receives about $180,000 in revenue sharing. The majority of these dollars go to our highway system. This is farm-to-market roads, bridges, and culverts. These things must be kept up, and in our county this is a priority. To lose these funds now means that in order to keep our county roads operational, we will have to tax our people even more.

This gives our farmers a double blow. First, our President wants to cut programs to the already depressed farm economy, and through the loss of revenue sharing will tax the farmer even more. We are all farmers in this area, and this simply means that taxes are going to go up for us all. Our President is seeking to cut the Federal deficit through the very lifeline of our great country, the farmer, and somehow to me, Senator, this just is not right.

What Congress should realize is that everything we eat, everything we wear, and in fact about everything we take so for granted, originates from the soil. It all begins with our farmers. Why then, since in reality we all depend on the farmer for survival, does the farmer find himself in his present financial condition? It has been said by some in high government that it is the farmer's own fault for the shape he is in, and that farming is a business like any other business and there are failures in any business.

To me, there is one big difference between the farmer and the businessman. The farmer is the only businessman I know of that buys retail, sells wholesale, pays freight both ways, and is expected to keep above the water. No business can operate that way and we all know it. As far as it being the farmers own fault for the shape he is in, I am wondering if this is really true.

I have been told that young farmers have gone to borrow money through different government lending agencies, and they have tried to get a $10,000 loan. They were denied that $10,000 loan, but were talked in to a $100,000 loan. They wanted a $10,000 loan to expand their hog operation or something, they went for $10,000, the man says can't give you $10,000, we will give you $100,000. Then do it big and do it right. And we say it is the farmers' own fault, not just real sure that it always is the farmers' own fault.

Perhaps some of the blame lies with these Government lending agencies that pushed them in to their present financial condition. These are my own personal views, and I could be wrong, but this is how I feel about it. I am just about through, I won't take much more time. In any case, the blame or the fault of whose fault it is or whose blame it is to me is all beside the point. The point right now is that there are farmers in trouble out there right now, no matter whose fault it is.

As a businessman, every time a farmer quits farming I have lost two potential customers. I have lost the farmer, and I have lost at least one of his children as a potential customer. As our customers dwindle, so does our business. This could well be the beginning of the demise of our small towns and communities. Is this what our Government wants? Maybe it is. The banks that are now going down are mainly banks that lend to agricultural areas. This certainly has to tell us something. If the farmer could just get a fair price for his product, and if the interest rates would come down, just keep coming down a little more, the farmer would not need any help from anybody. He could make it just fine.

In conclusion, I would ask that your committee seriously consider the items I have mentioned, and not have urban areas penalized rural areas in regard to reducing the budget deficit. Sir, I thank you very much.

Senator ABDNOR. Thank you, Leonard. You are absolutely right that rural America is being called upon to take a lot more of that budget cuts than anyone should be asked to, and I just know that isn't going to happen. I would say revenue sharing has been one of my favorite programs all along because at least rural America got the treatment. But don't forget that is a $4 billion program and a lot of guys when they are looking for dollars they look at our State government that has more than $4 billion worth of surplus while the Federal Government has $230 billion worth of deficits, it does create a problem. Out of all the programs that are getting down to where they are intended there is no doubt in my mind that revenue sharing does that better than any of the others. We sure will be in account of this when it comes up, but it is going to be a tough ball game. Our next witness is Tom Dobbs. He has been here since early this morning.

52-112 O - 85 - 5

STATEMENT OF THOMAS L. DOBBS, PROFESSOR AND EXTENSION RURAL DEVELOPMENT ECONOMIST, SOUTH DAKOTA STATE UNIVERSITY

Mr. DOBBS. I submitted a prepared statement, I don't think I need to take your time. I had requested an oral statement. I think in the interest of time we are at, the prepared statement will suffice.

[The prepared statement of Mr. Dobbs, together with additional material, follows:]

PREPARED STATEMENT OF THOMAS L. DOBBS

COOPERATIVE EXTENSION SERVICE

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Economics Extension
Economics Department
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January 30, 1985

V29TD02

MEMO TO: Senator James Abdnor
Vice Chairman
Joint Economic Committee
United States Senate

FROM: Dr. Thomas L. Dobbs
Professor and Extension Rural Development Economist
South Dakota State University

SUBJECT: Information for Your Meeting of February 14, 1985 in Freeman, S.D. on "Condition and Outlook for the South Dakota Economy"

Your letter of January 16, 1985 invited participation in the "Abdnor Task Force on the Rural Economy". I subsequently responded in the affirmative to your Sioux Falls field office. I am using this memorandum to convey some thoughts on conditions of the South Dakota economy and implications for public policy toward rural economic development.

South Dakota experienced quite healthy rural economic development in many respects during the 1970s. The State's population grew by 4 percent overall, partly as a result of substantial growth in non-agricultural wage and salary employment. Although agricultural employment declined by 36 percent between 1965 and 1979, non-agricultural wage and salary employment increased by 55 percent, causing overall employment in the State to increase. Manufacturing employment essentially doubled in South Dakota during that period. Although manufacturing is still modest as a percentage of non-agricultural employment in the State (11 percent), in comparison to the Nation as a whole, it became an important force in rural economic diversification and employment during this period. (See Attachment A: Rural Manufacturing Development - What Influences It? A Study of South Dakota in the 1970s.)

In spite of this overall favorable performance during the 1970s, two-thirds of our South Dakota counties and more than one-half of our towns actually declined in population during the 1970s. Also, there has been much less success in expanding agricultural processing than had been hoped for. In fact, agricultural processing employment has shown little net change over the past 20 years in South Dakota. Hoped for developments in an alcohol fuels industry for the State are but one example. (See Attachment B: Small-Scale Fuel Alcohol Production from Corn: Economic Feasibility Prospects.) Moreover, the Nationwide recession of 1979-82 was a severe economic setback for South Dakota. We are still in the process of making up for employment declines experienced during that period. Thus, in spite of the impressive gains in rural South Dakota during the 1970s, we now find ourselves in the mid-1980s with substantial underemployment. (See Attachment C: Rural Underdevelopment: Unemployment and Underemployment in South Dakota.) By one estimate, there recently were as many as 120,000 "economically disadvantaged" persons in South Dakota. Nearly 70,000 of these persons--some 16 percent of the total South Dakota population--were in the working age span of 14 through 64 years.

The current farm crisis is causing additional stresses and challenges to our rural economy. Declining farm purchasing power and numbers are causing severe stress for small town agribusinesses and other retail and service establishments. According to data from Iowa State University, one retail business may be lost for every nine farms lost in northwest Iowa. If we apply that same impact estimate to southeast South Dakota, we get some notion of the current small town stress. There were 6,219 farms in seven southeastern South Dakota counties in 1982. A loss of 10 percent (622) of those farms could mean the loss of 69 retail businesses in the area--unless alternative employment opportunities were found within the area for those farm families. Even by 1982, one in five farm operators in South Dakota worked 100 or more days per year off the farm.

Following are a few of the implications, in my view, of our current rural economic situation:

1. We must develop a two-pronged rural economic development strategy for South Dakota. One prong is short term, covering the remaining 15 years of the Twentieth Century. It may involve a heavy focus on the type of manufacturing growth experienced during the 1970s and the type of financial and related services growth experienced over the past 4 or 5 years. This first prong would also involve intensive reexamination of agricultural processing opportunities for the State.

2. The second prong involves South Dakota's rural development strategy for jobs in the Twenty-First Century, the basis for which must be laid now if objectives are to be achieved. We must have a strategy for skilled, higher-wage jobs in the high-tech manufacturing and service industries that are becoming an increasing portion of the American economy. The extent to which South Dakota will be able to participate in that economy will in substantial part depend on the quality of life offered in South Dakota (through schools, roads, municipal services, etc.) and on the quality of our higher education and research institutions.

3. Federal and State policies and programs affecting States in our region must be examined in light of such a two-pronged rural development strategy. Local communities must also examine their strategies in light of both the short- and longer-term perspectives. In South Dakota State University's Cooperative Extension Service, we are helping local communities to gain needed perspective through our "Small Town Economic Development Options" program (described in Attachment D).

TLD/vjc

Attch: A. Rural Manufacturing Development--What Influences It? A Study of South Dakota in the 1970s
B. Small-Scale Fuel Alcohol Production from Corn: Economic Feasibility Prospects
C. Rural Underdevelopment: Unemployment and Underemployment in South Dakota
D. Cooperative Extension Program on "Small Town Economic Development Options"

T. Dobbs' Attachment A

B 683

Rural manufacturing development ...

what influences it?

a study of South Dakota in the '70's

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Contents

Published in accordance with an Act passed in 1881 by the 14th Legislative Assembly, Dakota Territory, establishing the Dakota Agricultural College and with the Act of reorganization passed in 1887 by the 17th Legislative Assembly which established the Agricultural Experiment Station at South Dakota State University
File: 5.4-6 -- 1M -- 5-82kt -- 1267D.

B 683

Rural manufacturing development... what influences it?

By Wayne R. Goeken, former graduate research assistant
and Thomas L. Dobbs, associate professor of economics

I. Introduction

The increased level of manufacturing activity in rural areas[1] of the U.S. over the past 20 years is a reversal of a pattern. Metropolitan areas traditionally have been considered least-cost locations because they attract complementary firms and suppliers and possess skilled labor pools, access to markets and transportation, and a wide range of services. However, certain problems--such as pollution, crime, and congestion--have begun to offset the appeal of metropolitan areas. Manufacturing employment growth during the 1960's showed U.S. nonmetropolitan manufacturing employment increasing by 3.4%, compared to a metropolitan gain of 1.7%.[2]

South Dakota has benefited from this trend, posting a 20% (or 2,600 employee) increase in manufacturing employment in the 1960's and a 65% (or 10,200 employee) increase from 1970 through 1980. (Over 75% of the increased manufacturing employment from 1960 through 1980 occurred among those industries producing durable goods.)

This increase in manufacturing employment has helped offset the decline in agricultural employment. Agriculture (directly) accounted for less than 15% of total employment in South Dakota by 1980. Direct employment in agriculture decreased by more than 40% from 1960 to 1980.

Expanded manufacturing employment opportunities have helped to reduce the flow of working age people out of South Dakota. Net outmigration from South Dakota decreased from 92,560 persons during the 1960's to 28,935 during the 1970's. This permitted modest population growth (3.4%) in South Dakota during the 1970's, compared to a decline (-2.1%) in the 1960's.[3]

We have no assurance that this pattern--continued expansion in manufacturing jobs to help balance the economy--will continue. One recent study notes that

> employment growth of the 1970's [in the Upper Midwest, which includes South Dakota] was made possible largely by the huge numbers of young people and women joining the labor force. But the supply of young workers will be greatly diminished [in the 1980's] because most of the "baby boom" children are already in the labor force. How many more women will join the labor force is uncertain.[4]

What lessons can we learn from the 1970's, so that we can continue a steady and sound expansion in rural industrial employment opportunities?

An examination of recent industrial location patterns in the state--with attention to community and labor force characteristics of the communities in which industries have located--can help in projecting, planning for, and promoting manufacturing growth in the future. If they know what has most influenced previous industrial location decisions, local planners can then more effectively deal with those inducements to industry which are within their own community's control.

3

Purposes and hypotheses of the study

The general purposes of this study were two-fold:

(1) to explore how the extent and type of rural industrialization being experienced in South Dakota differs among types of communities and local labor sheds; and

(2) to develop policy and planning recommendations that can be used by rural industrial development entities at the community, district, and state levels in South Dakota.

The underlying assumption of this study was that the degree and type of industrialization is directly related to community and labor shed characteristics. These characteristics, or "locational inducement factors," can be broken down into several categories.

Labor force: It was hypothesized that the existence of an ample supply of relatively low cost labor favors manufacturing employment growth. As manufacturing firms often must train their employees anyway, the low skill level of much of South Dakota's work force may not be a detriment. It may, in fact, be a boon to expanding manufacturing activity, since low skills generally imply low wages, which in turn attract manufacturing. This relationship was expected to exist primarily for labor-intensive manufacturing firms with relatively low-technology production processes.

Agglomeration: We also expected a sizable population base and agglomeration factors to aid a community's industrialization potential. Agglomeration economies refer to reduced costs of inputs and services for firms that are achieved when an area has sufficient firms that suppliers can locate nearby and operate with substantial volumes. A large population base--by South Dakota standards--was hypothesized to constitute both a potential labor supply and a potential market for a firm's goods.

Transportation: Access to adequate freight transportation, for shipping raw materials in and finished products out, was hypothesized to assist a community's industrialization efforts. The availability of alternative forms of transportation--such as truck, rail, and air--and access to an interstate highway were expected to enhance manufacturing activity in a community.

Educational facilities: The existence of post-secondary educational facilities in a county was also hypothesized to promote increased manufacturing employment growth. As graduates of these facilities are retained in the community, the work skills in the labor pool will be more diverse and higher in quality. This may attract industries requiring more skilled workers. Management personnel are also more easily drawn to these communities, since they will have post-secondary educational facilities at hand for their children and since cultural amenities will be more readily available for their personal enjoyment. In addition, college students for part-time work and student spouses for part- or full-time work can add to the potential local labor force.

Other factors: There are other factors not neatly included in the four categories above. They include local actions (such as making industrial sites available, providing facilities at these sites, and providing financing assistance to firms) which are often believed to constitute attractions to industry.

Data sources and analytical procedures

Data for this study were collected from several sources. Much of the data were obtained through mail survey questionnaires. One questionnaire was sent to a sample of manufacturing firms which had become established in South Dakota communities since approximately 1970.[5] Another questionnaire was sent to all local development corporations in the state. Copies of these questionnaires are presented as Appendices A and B in this publication. Data for other variables were collected from various secondary sources.

Several methods of statistical and tabular analysis were used in this study to discern which factors have been relevant in past location decisions of manufacturing firms in South Dakota. Multiple regression analysis was used to examine relationships between dependent variables and the values taken by sets of explanatory or independent variables. Two alternative dependent variables were used in this study: 1) the absolute change in manufacturing employment, and 2) the percentage change in manufacturing employment. Manufacturing employment change in South Dakota was measured between the years 1971 and 1977 (due to data available at the time of analysis).

The independent variables represented various socio-economic characteristics of South Dakota counties. The county was chosen as the measurement unit for the regression analysis. These independent, or explanatory, variables were grouped within four broad categories of locational inducement factors: (1) labor force availability, (2) economic structure and agglomeration factors, (3) transportation access, and (4) educational facilities. Regression models were developed for analysis of manufacturing employment growth for the entire state and for only nonmetro areas of South Dakota, thus excluding Minnehaha and Pennington counties from this latter analysis.

Tabular analyses were also carried out and were supplemented, where appropriate, by chi-square and analysis of variance statistical tests.

More details concerning data sources, statistical methodology, and regression analysis results can be found in the SDSU Masters thesis by Goeken, one of this bulletin's authors.[6] Table 1 contains abbreviated descriptions of variables used in the regression analysis. Many of these variables will be referred to in the following sections. Shown in Table 2 are the county-level population and employment data for South Dakota which were used in the analyses.

Industrial location factors examined in this study can be thought of as either <u>beyond a community's control</u> or <u>modifiable by community action</u>. Results of the analysis are presented in the following two sections of this bulletin.

II. Factors beyond community control

Previous industrial location studies done in the United States have frequently concluded that variables beyond the realm of direct community control are the most influential in attracting manufacturing firms. Several variables which tend to be "beyond community control" were examined in this study. Many are among the regression-analysis variables included in Table 1.

Labor force availability

Manufacturing firms tend to locate where most of their labor requirements can be met from the existing labor pool in the area. This is especially true of labor-intensive industries that draw largely upon initially unskilled laborers, as do food processing and apparel fabrication firms.

Several different variables were used in this study as indicators of how much labor was available in South Dakota counties in 1970, the beginning of the period under study. These included the county unemployment rate, measures of the labor force participation rate, measures of underemployment and labor force utilization, and age structure of the county population. Regression analysis was used to determine the effect of these labor force availability factors on both growth in the absolute number of manufacturing jobs and percentage growth in manufacturing jobs in South Dakota counties between 1971 and 1977.

Only two of the variables in this group contributed much understanding to why manufacturing employment opportunities have expanded more rapidly in some counties than in others. These were the <u>female labor force participation rate</u> and one of the <u>underemployment</u> indicators.

The female labor force participation rate measures the percent of the female civilian population aged 16 and over who are included in the civilian labor force. A low participation rate is a possible indication that additional workers could enter the labor force if more jobs became available. Counties with relatively low female participation rates at the beginning of the 1970's were found to have the greatest percentage rates of manufacturing job growth in subsequent years. This is consistent with the apparent national tendency during the 1970's for low-wage manufacturing firms to move or expand in substantial numbers into rural areas which had available female workers. For many counties, a relatively untapped female labor supply was thus conducive to attraction of manufacturing firms and jobs.

The other significant explanatory variable in the group was the underemployment indicator which measured the percentage of laborers employed less than full time (40 hours per week). As expected, counties with higher than average rates of part-time employment going into the 1970's subsequently experienced somewhat more rapid manufacturing growth, in percentage terms. The underemployed work force apparently served as a drawing card to manufacturing firms.

Other variables designed to measure local labor force availability did not shed much light on why industrial growth has been faster in some South Dakota counties than in others. The county unemployment rate, the county total labor force participation rate (including both men and women), and age structure of the county population at the beginning of the 1970's all seemed--by themselves--to explain little about differential manufacturing employment growth rates within South Dakota. This was also true of one of the measures of underemployment used, the economic utilization index. The economic effectiveness in which the skills of an area's work force are put to use is measured by this index. Differences in economic utilization of work forces among South Dakota counties at the beginning of the period studied did not seem to substantially influence subsequent rates of manufacturing growth.

High correlation between selected variables is one reason that some variables did not, by themselves, explain much of the variation among counties in manufacturing growth rates. For example, the age structure variable was highly correlated with the college variable. The college variable (discussed later in this report) did prove to be of some importance in explaining manufacturing growth rate differences among counties.

<u>Economic structure and agglomeration factors</u>

Industrial firms usually consider the level and type of services available in prospective communities before making final location decisions. Often, the presence of other firms already located in an area causes a host of specialized services--such as engineering, legal, financing, and transportation services--to locate in the area and to be available at low per unit costs. These agglomeration economies are generally associated with larger communities, where the population base can provide both labor inputs and a potential market for a firm's products.

Several variables dealing with population, prior industrialization, and market accessibility were used in this study to measure agglomeration effects on manufacturing growth. The agglomeration potential of an area is also influenced by the general economic structure of the area, represented in this study, in part, by variables which measure income and poverty levels (Table 1).

<u>Agglomeration factors</u>: Of the agglomeration variables, the population of a county at the beginning of the 1970's seemed to have the most effect on subsequent industrial expansion. Counties with the highest population at the outset tended to have the greatest growth in manufacturing employment--both in absolute and in percentage terms. However, the effect was less marked in the more rural counties of South Dakota than in the more urbanized counties of Minnehaha and Pennington. Persons per square mile in counties showed a similar, positive effect on manufacturing growth. However, as a predictor of manufacturing growth, the simple variable <u>population</u> was more useful than the variable <u>persons per square mile</u>.

A sizable population base does, as hypothesized, apparently enhance a local area's industrialization potential. This may be due in large part to the existence of a more extensive labor supply, from which increased manufacturing workers can be drawn. The diversity of skills which can be found in the labor pool of a more populated area is also important.

A progressive, reinforcing pattern often occurs as industry which requires skilled workers enters an area. A demand for skilled laborers which can not be met from the existing labor pool is filled by skilled workers who move into or return to the area. This influx of skilled laborers may provide the impetus for attracting more industry which draws on these and other skills. In this fashion, the employment demands of manufacturing firms and the quality and quantity of the labor force in an area progress together.

A location index was used in the study to measure the importance of proximity to major trade centers. Such proximity was expected to enhance ease of shopping for employees, as well as bring manufacturers relatively near to potential markets and suppliers. However, this particular location factor did not prove to be important in explaining differences among South Dakota counties in manufacturing employment growth during the 1970's.

Another factor analyzed was the degree of prior industrialization that existed in each county at the outset of the 1970's. It was thought that counties with a greater initial industrial base would have high rates of manufacturing employment growth during the 1970's. Incoming firms can often hold down costs by utilizing facilities and services which are already present in more industrialized communities, rather than incur the added costs associated with initial provision of these facilities and services.

The degree of prior industrialization was found to have the opposite effect on manufacturing growth from that expected. Counties with a low level of industrialization entering the 1970's had the highest percentage rate of growth in manufacturing employment. Of course, many started with very low bases, causing small absolute increases in manufacturing employment to be large in percentage terms. Nevertheless, this finding is consistent with the general national trend observed during the 1970's--manufacturing growth expanding markedly in rural, less industrialized areas of the country.

Economic structure: The agglomeration potential of an area is also influenced somewhat by the economic structure and well-being of the area. Economic well-being influences support for and availability of community services which, in turn, can enhance industrial expansion potential. Variables representing poverty and income were used to measure the influence of economic well-being factors on manufacturing growth.

The level of poverty in South Dakota counties inhibited manufacturing employment growth. Those counties with the least poverty were the most successful in increasing manufacturing employment growth during the study period. This may indicate that, as less of the populace is poor, the more support there will be for public services (such as streets, sewers, police protection, and education), which are aids to attracting industry. Also, a high degree of poverty may indicate a generally depressed economic structure, which would not be conducive to manufacturing employment growth.

Per capita income, the other variable used to represent economic well-being, did not appear to be a good predictor of manufacturing growth. However, this may have been due in part to the variable's high correlation with the poverty variable. Both variables tend to represent opposite sides of the same coin.

Transportation access

In considering where to locate manufacturing firms, entrepreneurs give careful consideration to transportation needs. Adequate facilities must exist to handle any special needs. Thus, a firm which processes bulky or heavy materials may be able to save on transport costs by locating in an area served by a railroad.

On the other hand, if emphasis is placed on fast, regular delivery service, an entrepreneur may desire to locate near an interstate highway, which may make quick access to customers possible.

The influence of access to interstate highways on success in gaining manufacturing employment was assessed by examining differential manufacturing growth rates among counties in relation to nearness of the respective counties to South Dakota's interstate system. Counties were classified according to whether an interstate highway (1) passed through the county, (2) passed through an adjacent county, or (3) passed neither through the county nor through an adjacent county.

Contrary to expectations, good access to the interstate highway system did not much improve the county-level performance in manufacturing growth during the 1970's. In fact, for percentage changes in manufacturing employment, the regression analyses actually showed interstate access to have a negative influence, although the results were not highly significant, statistically. For the types of manufacturing firms moving into or expanding in South Dakota's more rural areas during the 1970s, the results suggest that the system of paved secondary roads sufficed and that other factors (such as availability of a female work force in small towns) more than offset distance from the interstate system. Unlike in many other states, there is little cost associated with crowded highways for users of secondary roads in South Dakota.

Of course, it should be kept in mind that the interstate highway system was designed so that many of the major population centers in South Dakota are, in fact, served by the system. Hence, to a certain extent, manufacturing growth associated with population centers has necessarily gone along with interstate highway access.

Transportation modes used by South Dakota manufacturers were analyzed in some detail in this study, drawing on data from the manufacturing firm survey (Table 3).

In terms of shipping goods, the difference among SIC (Standard Industrial Classification) categories is most pronounced in the frequency of use of railroads. The producer of paper and allied products (SIC 26) relied entirely on the railroad for shipping its products. (Since only one firm existed in this SIC category, it is difficult to draw conclusions concerning the influence of rail transport on this category as a whole.) At the other extreme, firms in 8 of the 12 SIC categories did not utilize railroads at all for shipping their goods. Thus, the presence of a railroad for shipping a firm's goods appears not to be of major importance for most manufacturing firms responding to the survey.

Firms in two industry categories--electrical machinery and transportation equipment--made somewhat frequent shipping use of the transportation mode labeled "other" in Table 3. The principal "other" modes were Parcel Post and United Parcel Service (UPS).

Trucking was the most important shipping mode, carrying 91% (48 by truck owned and 43 by truck not owned) of the volume of goods shipped. All industries except transportation equipment (SIC 37) and the single reporting firm which produced paper hauled more than 80% of their outshipment volume by truck.

Reliance on trucking was also evident in the receiving of materials (91% of all materials received). Firms producing chemicals and allied products (SIC 28) constituted the only SIC group to use trucks for less than 80% of the volume of materials received. This group of firms used rail more than did others, with 24% of volume received by this means.

Table 4 differentiates the use of each method of transport for firms located in different sizes of cities or towns. Reliance on trucks for shipping goods was fairly equal among firms in different city sizes. For receiving materials, firms in cities of 1,000 to 5,000 persons tended to utilize trucks owned by the firm more often than did firms in other size intervals. No particular city size appeared to have much greater use of air or rail transport (for movement of manufacturing materials and goods) than did others. Firms located in smaller communities (under 1,000 population) did tend to use "other" transportation modes, suc as UPS, to a greater extent than firms located in larger communities.

Overall, transportation access does not appear to have been as important as we expected it would be in inducing manufacturing firms to locate in some South Dakota counties rather than others. A reasonably good system of secondary roads, coupled with heavy reliance on truck transport, seems to have made many of the smaller and more remote towns sufficiently accessible for manufacturing growth to take place. The use of truck transport allows firms flexibility in plant location decisions, permitting factors other than transportation access to exert stronger influence on those location decisions.

This in no way denies the positive influence that the interstate highway system has had in opening up South Dakota as a whole to manufacturing possibilities. The state is certainly more accessible to regional and national manufacturing goods markets than it was prior to creation of the interstate highway system.

Educational facilities

The existence of post-secondary educational facilities within a county was hypothesized to be a positive inducement to manufacturing employment growth. A certain proportion of graduates from post-secondary educational facilities can be expected to remain within the community following graduation if employment opportunities are available; this causes a general upgrading of the skill level of a local labor force. Manufacturing firms which require special labor skills may tend to locate in a county where a college or appropriate vocational education facility is present. Another attraction which is associated with college communities is the increased availability of cultural opportunities. This can be especially influential in attracting manufacturing management personnel to rural areas, as these cultural amenities add to the overall quality of rural living.

To test the above hypothesis, rates of manufacturing employment growth in South Dakota counties were examined in relation to presence or absence in the respective counties of (1) colleges and (2) post-secondary vocational education (vo-ed) institutions. Those counties which had either college or vo-ed institutions in 1970 did tend to show greater manufacturing employment growth, in absolute terms, in subsequent years. While that tendency also held true when county manufacturing employment growth was measured in percentage terms, the influence exerted by educational facilities was not particularly strong.

III. Community modifiable factors

Many location factors are beyond community control. However, there are certain variables a community can influence which are believed to enhance its industrial potential.

General local development corporation activities

A local development corporation (LDC) has been described as an "independent association of private businesses and citizens operating with privately subscribed funds as a legal authority or instrument of the state in which it does business. The privately subscribed funds are received through the sale of stock, if chartered as a profit corporation, or from dues, assessments, or other contributions, if chartered as a nonprofit corporation."[7]

The roles which LDCs play vary considerably. Generally, an LDC promotes the economic development of the community by assisting industry in locating within the community or by helping to expand existing industry. This may be accomplished by provision of several items, including financial assistance, industrial sites and related facilities, and general liaison between the community and industry.

9

Most of the 125 firms responding to the manufacturing firm survey indicated that LDCs had exercised little or no influence on their decisions to locate either within South Dakota or in particular communities. Only 17% indicated LDCs had exerted a major influence on their decisions to locate within South Dakota. The same percentage reported major LDC influence on their decisions to locate in particular communities.

LDCs assigned somewhat more importance to their own roles in attracting industry. Of 87 questionnaire responses to one question, 43 (roughly half) of the LDCs felt they had been successful in influencing one or more manufacturing firms to locate in their respective communities since 1970.

Two thirds of the reporting LDCs in South Dakota were organized as nonprofit entities. There was little difference between profit and nonprofit types in self-reported rate of success in attracting manufacturing firms. However, a greater proportion of the profit LDCs or their communities (92%) provided some form of financial assistance to firms they helped attract than did nonprofit LDCs or their communities (66%). The LDC survey also indicated that financial assistance was more often provided in large than in small cities.

Types of financial assistance reportedly offered to firms by LDCs or local governments are summarized in Table 5. The responses are grouped there according to type of LDC (profit vs. nonprofit).

The lease-purchase option (LPO) on buildings and land was the most frequently used form of financial assistance, followed closely by the LDC assisting the firm in obtaining financing from some other source (ASSIST). Disregarding the "OTHER" category in Table 5 for the moment, the least commonly used source of financing was industrial revenue bonds (IRB).

The local tax incentive (LTI) was utilized by 59% of the firms attracted by an LDC designated as profit, whereas local governments in towns of nonprofit LDCs utilized that means of assistance for only 10% of the firms for which financial assistance was provided. Nonprofit LDCs offered the lease-purchase option (LPO) on buildings and land more often than any other type of financial inducement.

LDCs in towns with less than 2,500 persons utilized the lease-purchase option (LPO) on buildings and land more frequently than any other single financing device. A local tax incentive (LTI) to firms was the device most commonly used in cities of over 2,500 persons. The use of industrial revenue bonds (IRB) as a financial attraction device was most prevalent in the cities of over 5,000 persons.

Overall, it appears that LDCs and local governments in large population centers are more willing and able than those in small centers to provide financial assistance of a more costly nature--such as local tax incentives and industrial revenue bonds. Conversely, the LDCs and other local ent..rises in small communities tend to rely more heavily on conventional lease-purchase options on buildings and land and on assisting firms in obtaining financing from other sources. It should also be noted that profit-making LDCs generally mobilize more financial assistance of all types than do their nonprofit counterparts; much of this assistance, it should be noted, is public in nature (i.e., industrial revenue bonds and local tax incentives).

LDCs ranked (in the survey) eight ways often used by them in promoting industrial development (No. 1 is most important and No. 8 is least important):

No. 1. Play direct role in making industrial sites and buildings available to firms--by development corporation options, ownership, lease-purchase arrangements, etc.;

No. 2. Promote good business climate and serve as liaison between industry and various community groups;

No. 3. Assist firms in obtaining financing from other sources, such as commercial banks or the Small Business Administration;

No. 4. Make inventories of all available industrial land and buildings in the area;

No. 5. Conduct economic surveys of the area (e.g. labor surveys);

No. 6. Give tours of the area to prospective firms;

No. 7. Directly assist in financing; and

No. 8. Provide managerial and engineering counseling services of a technical nature.

As indicated by the rankings, LDCs in South Dakota feel that the provision of industrial sites and buildings is of primary importance in attracting industry. This is perhaps the most common function of LDCs, as industrial sites are often held on option, with the possibility of as yet unidentified firms locating in a community.

According to the rating given to the two factors dealing with financing, it appears that the LDCs do not feel that a direct role in financing is as cost-effective in attracting industry as is an indirect role, via assistance to firms in obtaining financing from other sources. This supports our general observation that most LDCs in South Dakota do not have large amounts of capital to work with and that they thus rely more on alternative financing, as well as nonfinancial inducements, to attract industry.

As expected, the provision of managerial and engineering counseling services of a technical nature was rated least important of the various roles of LDCs in attracting industry. This ranking may be due to the inability of most LDCs and local entities in South Dakota to provide such services. Provision of such services can be expected to be most prevalent in the larger population centers and in communities where these services are associated with a university or extension program.

The profit-nonprofit status of LDCs did not produce any marked differences in their ratings of these eight industrial inducement factors. However, some differences were noted among LDCs in various city sizes. Most notable was the difference in rated importance of financing assistance, with LDCs in cities of over 2,500 persons considering both direct financing for firms and assistance in obtaining alternative financing as being of more importance than did LDCs in communities of less than 2,500 persons. The LDCs in larger communities appear to have relatively more capital resources from which to draw in their industrial inducement efforts.

<u>Site availability and quality</u>

Several questions on both the local development corporation survey and the manufacturing firm survey explored the characteristics and business terms of industrial sites and buildings utilized by firms.

Of 85 LDCs which responded to one question, 66% indicated that they owned or had an option on a development site; 92% of LDCs in communities of over 5,000 noted such ownership or option arrangements.

The breakdown, for LDCs reporting ownership or option arrangements in existence, is as follows:

(a) 56% reported LDC-owned sites;

(b) 18% reported that they held options on sites; and

(c) 26% indicated that they controlled development sites by a combination of ownership and option agreements.

Profit LDCs were found to be more likely to own development sites than were nonprofit LDCs.

Of those firms which LDCs reportedly helped influence to locate within their communities, 71% located on specially designated development sites (Table 6). Sixty percent of the development sites were owned by LDCs and an additional 16% were held on option by LDCs. The LDCs also reported that 69% of the development sites were in areas zoned "industrial."

Facilities available at industrial sites prior to firm location, according to 126 respondents to the manufacturing firm survey, are shown in Table 7. Over 50% of these sites had electricity, sewer, and paved road facilities. Electricity was the most often available.

Due to the small number of firms in several of the SIC code categories, we must exercise caution in drawing conclusions about the importance of various facilities in attracting particular types of manufacturing firms. However, we do note that those firms producing transportation equipment (SIC 37) tended to locate at sites which did not have treated water, sewer, or rail facilities. Rail service seems to be of little consequence to those firms producing apparel and other fabric products (SIC 23) and firms producing electrical and electronic machinery, equipment, and supplies (SIC 36).

Firms producing concrete products (SIC 32) tended to locate on sites where no building was already present. This would be expected, since the majority of the firms in this SIC category produce products which require special plant features peculiar to the industry. The sites which these plants located on were also the least likely to provide gas, paved road, electricity, and sewer facilities. Conversely, provision of rail service at the site was more likely in this SIC category than in most others, indicating an apparent need for concrete producers to have rail access to move their bulky materials.

Nearly half (49%) of firms responding to the manufacturing firm survey indicated that they had moved into previously used buildings when they came to the community. Another 39% moved into new buildings constructed specifically for them. Very few firms utilized previously unused speculative buildings. This may give a clue about the advisability of constructing "spec buildings."

The most frequent users of new buildings included those firms producing cement products (SIC 32), food products (SIC 20), and lumber and wood products (SIC 24). These types of firms generally need special facilities which must be built into the structure of the plant. Thus, it may be as cost-effective to construct a new building to meet these firms' exact specifications as to remodel an existing building.

Firms were also categorized according to whether they were "new" operations or "take-overs" (changes in ownership involving previous local operations) at the time of establishment in the community. Of the 102 firms reported as "new" operations, the proportion utilizing new buildings was about the same as that utilizing previously used buildings. However, of the 23 firms designated as "take-overs" of previous operations, 19 (83%) used previously occupied buildings.

Buildings and land were purchased outright by 46% of the manufacturing firms. The other types of purchase or rental arrangements reported by firms were fairly evenly split: 19% of the firms used ordinary leases; 10% used lease-purchase agreements financed by municipal bonds; 18% used other types of lease-purchase arrangements; and 9% used some "other" type of purchase or rental agreement.

Those firms which located in cities of 5,000 to 9,999 persons utilized the lease-purchase agreement financed by municipal bonds 37% of the time, nearly three times more frequently than did firms in any other city size group. In contrast, firms in smaller cities used this form of purchase-rental agreement least often, relying more on outright purchases of buildings and land and on various other types of purchase or rental agreements.

Firms producing food products (SIC 20), chemical products (SIC 28), and cement products (SIC 32) were the most common users of the outright purchase approach for acquiring buildings and land.

12

Firms in SIC categories 20 and 32 often used new buildings when they began operations in a community. In sum, these firms often purchase or construct new buildings when they start out in a community.

The lease-purchase agreement financed by municipal bonds was used most often by those firms producing rubber and miscellaneous plastic products (SIC 30) and firms producing machinery, except electrical (SIC 35). These types of firms tend to locate in the larger cities of South Dakota, and it is in such cities that this type of building acquisition agreement is most prevalent.

Community services and tax levels

Community service levels are sometimes believed to influence managements' willingness to locate firms in given communities. One variable was included in regression analyses of this study to specifically test the relationship between manufacturing growth and quality of community services. This variable is the fire protection rating, as measured by the rating of the largest city in each county of South Dakota. The fire protection rating was considered as a proxy for general service level quality in each county, since a favorable fire protection rating was believed to be indicative of a relatively high level of community support for public services.

However, the fire protection rating variable did not prove to be significant in explaining why manufacturing grew faster in some counties than in others. It is possible that the high correlation of this variable with the county population variable disguised its effect somewhat. Moreover, the fire protection rating was also highly correlated with several other variables--such as the tax, poverty, and per capita income levels of counties--which may serve as indirect proxies for service levels.

A tax variable, based on relative rates of property taxation in South Dakota counties, was also entered into the equations to test the hypothesis that higher tax levels discourage local manufacturing growth. However, the regression results generally indicated the existence of a positive relationship between the tax level and manufacturing employment growth.[8] We thus conclude that local tax levels either are generally unimportant in firm location decisions or are an indication of the level of services of an area. In this latter view, an increased tax level is associated with an increased quantity and quality of public services. Hence, higher taxes--by making improved public services possible--could (up to some point) serve as an industrial attraction!

Most other industrial location studies also have found tax levels to be insignificant in explaining firm location decisions. This suggests that local development officials should carefully consider whether tax breaks for incoming firms are cost-effective locational inducements. The tax revenue generated by a manufacturing firm may be quite considerable for a community, and it often is one of the reasons for seeking a new manufacturing firm in the first place. Why automatically give it up to attract a firm that may be willing to locate in the community anyway?

IV. Summary and conclusions

Can South Dakota continue to benefit from the national trend of manufacturing activity expanding into rural areas? The answer to this question depends on its ability to match the needs of various types of manufacturers with the characteristics and strengths of individual South Dakota communities. The findings of this study concerning industrial location factors should help in this development effort.

Location factors over which communities have little control

Of the factors considered to be beyond community control, the presence of a large population base and post-secondary education facilities are the most significant industrial inducements when growth is measured in terms of absolute change in manufacturing employment.

The preponderance of manufacturing activity--in terms of absolute change in manufacturing employment--locating in the larger population centers of South Dakota during the 1970's appears at first to be contrary to the notion of manufacturing activity shifting to rural areas. However, we must keep in mind that, with the exceptions of Sioux Falls and possibly Rapid City, most South Dakota towns would be considered rural or nonmetropolitan by national standards. There is much room for growth yet in South Dakota's "larger population centers" before significant diseconomies of size set in.

Most communities with college or vocational education facilities are also associated with sizable population bases. Therefore, firms can generally expect to fill most of their labor needs, in terms of quantity and quality, in such communities.

Previously low levels of female labor force participation, absence of poverty, and lack of prior industrialization proved to be the factors which most influenced percentage change in manufacturing employment in South Dakota counties during the 1970's. Thus, those counties which can still incorporate a good deal of additional female labor into their work forces can be expected to increase manufacturing employment by the greatest percent. A high degree of county underemployment in general was found, in this study, to lead to a higher than average percentage rate of subsequent growth in manufacturing employment.

Contrary to prior expectations, access to the interstate highway system was not found to significantly affect the absolute or percent change in manufacturing employment growth. The widespread use of truck transport, in combination with adequate noninterstate highway access, seems to have offset some of the disadvantages expected for communities not close to the interstate system. Deteriorating highways and ever-increasing fuel costs could change this picture during the 1980's, however. Transportation costs may become a more significant determinant of manufacturing location in the future in South Dakota.

In terms of tonnage, 91% of all goods shipped and materials received by those firms responding to the manufacturing firm survey in this study were transported by truck. Firms producing chemicals and allied products constituted the only manufacturing group using trucks for less than 80% of their material transport. The use of trucks for shipping goods and receiving materials is fairly uniform among firms from different city size intervals.

Location factors over which communities can exert some control

Overall, actions taken at the community level appear to have little direct influence on manufacturing firms' decisions to locate within particular communities. Responses of manufacturing firms indicated that local development corporations (LDCs) had major influence on the location decisions of only 17% of the firms.

Of the LDCs surveyed, nearly half reported that they had influenced at least one manufacturing firm to locate in the community. The profit-nonprofit status of LDCs did not seem to have any notable bearing on their rate of success in attracting industry.

The most notable difference between the LDCs of larger and smaller cities is in terms of the financial support provided for manufacturing activity. The LDCs from larger communities are more concerned with financing manufacturing activity and have greater financial capacity to directly assist firms.

LDCs and local governments of larger cities often use industrial revenue bonds and local tax incentives to financially assist new firms. Local tax incentives may often be too costly for small cities to effectively utilize. Industrial revenue bonds, while incurring very little risk to the community, are not used very frequently by smaller cities. This may be due to a lack of familiarity on the part of officials from smaller cities with procedures for issuing industrial revenue bonds. Also, the overhead costs associated with issuing bonds may be harder to bear for small towns. Whatever the case, it would seem that this means of financing might be utilized more extensively by smaller communities to provide financial assistance to new manufacturing firms.

Greater financial capacity was exhibited by LDCs designated as profit than ones designated as nonprofit. Ninety-two percent of the profit LDCs provided financial assistance to firms, compared to 66% in the case of nonprofit LDCs.

Municipal bonds to finance lease-purchase options on the first building and adjacent industrial land of firms were more commonly used in large cities than in small cities. Also, the holding of development sites--either by ownership or by option--for future industrial activity was also most prevalent among LDCs of cities with over 5,000 persons.

Generally, facilities provided at industrial sites did not differ much among various city sizes or between profit and nonprofit LDCs. No particular combination of facilities appeared to be the general key to attracting manufacturing activity. Electricity was the most commonly provided facility, with industrial site rail access the least often provided.

Those firms producing food and concrete products were the ones to most often construct new buildings for their initial operations. Previously used buildings were utilized most frequently by firms producing rubber and plastic products, metal products and transportation equipment, and machinery.

In general, activities considered within the realm of community control seem to have little direct influence on attracting manufacturing activity. For example, lower local taxes--an industrial inducement sometimes considered by communities--was not found in this study to be a likely significant factor in industrial location decisions. If anything, low tax levels may lead to poor local services and discourage industrial growth. Some local actions, such as assisting new firms in finding and gaining access to industrial buildings and sites, may be relatively inexpensive and worthwhile for local development groups, however.

Conclusions

The findings of this study tend to indicate that most <u>individual</u> communities have limited abilities to influence the course of events on local manufacturing development. Local development groups should recognize those limitations and develop strategies based on variables that can be positively influenced or controlled.

For example, communities can maintain inventories of the quantity and composition of their labor pools. Particular attention should be given to identifying potential female additions to the labor force, since many of the light, footloose manufacturing enterprises which enter rural areas typically draw most heavily on the female labor force. Underemployed and "discouraged" workers also need to be identified, since these workers--if given adequate training and employment opportunities--can significantly contribute to economic activity in South Dakota. Labor force inventories can assist potential firms, even though the individual communities have little direct influence on local labor supplies.

Although county access to interstate highways did not prove to be significant in explaining manufacturing employment growth in this study, the heavy reliance on truck transport (91% of both goods and materials tonnage) may take on added significance in the years ahead as increased fuel prices cause transportation costs to make up a greater percentage of firm operating costs. Firms may, in the future, pay closer attention to cost savings associated with locating near the source of raw materials or near the point of final delivery--depending on whether a weight gaining or weight losing production process is involved--than they did during the 1970's period covered by this study. This could lead to the increased practice of processing food products nearer to sources of agricultural production, a likely advantage to South Dakota in general.

How individual communities will fare in terms of manufacturing development in the 1980's and 1990's, however, may depend a great deal on such state and local transportation decisions as what feeder roads to maintain and in what form to maintain them. Increased road transportation costs may make rail access relatively more important to at least some types of manufacturing development during the remainder of this decade than it appeared to be in the 1970's.

Communities probably best serve their interests by attempting to attract industries which can utilize the facilities and services which the community already has available, rather than by offering additional, costly inducements. Emphasis should be on economic advantages which already exist. Thus, it may often be more important to assist the expansion efforts of already existing firms than to seek out new firms to bring into the community.

In light of the apparen y greater success of the larger South Dakota cities in attracting manufacturing firms and the greater use of certain financial devices in those cities, it may be appropriate for local development corporations and local governments of smaller cit'es to increase their use of selected financial tools in attracting manufacturing firms. Some types of financial incentives, such as local tax breaks for incoming firms, may be too costly for small cities; however, devices such as industrial revenue bonds, which are normally free of risk for local governments, might judiciously be more widely used in South Dakota.

Smaller communities may be at somewhat of a disadvantage in terms of the technical expertise of their personnel in dealing with federal development programs. Local development officials from smaller communities are generally only involved with community development programs on a part-time basis, whereas larger cities may have full-time staff working in this area. Thus, there is a need for state development agencies, planning districts, and the Cooperative Extension Service to conduct workshops for local officials on development options and available financing tools.

Before setting out to attract industry, local people need to assess the probable impacts of industry on their community and on particular segments of the population within the community. They should consider the equity in distribution of potential employment and income benefits expected to be derived from the industrialization effort. They should attempt to anticipate any possible pollution costs, congestion, and crime. There may be added demands for such community services as water, sewer, fire, police, and streets as a result of new firms and their employees and families. Understanding these potential impacts, local people are then ready to work on the industrial potential of their community. The findings of this study can be used as guidance in developing that potential.

Footnotes

[1]Census reports classify cities with populations of over 50,000 as metropolitan areas. In this report, rural will denote those incorporated places with fewer than 40,000 persons in 1970, which includes all of South Dakota exclusive of Sioux Falls and Rapid City. The terms rural and nonmetropolitan will be used interchangeably throughout.

[2]Thomas L. Dobbs. Planning for rural industries - local employment. EC 722. Brookings: South Dakota State University, Cooperative Extension Service, 1979, p. 3.

[3]Marvin P. Riley and Linda Baar. South Dakota population and net migration, 1970-1980. Popula a Update Series, C229, No. 4. Brookings: South Dakota State University, . icultural Experiment Station, 1981, p. 1.

[4]Upper Midwest Council. Upper Midwest employment trends. Minneapolis, MN: Upper Midwest Council, 1979, p. vii.

[5]Unless otherwise noted, data referred to as from the "manufacturing firm survey" are from this sample of manufacturing firms. Sioux Falls and Rapid City firms were excluded from the survey. Details of the sampling procedure are contained in Appendix A of the thesis by Goeken: Wayne R. Goeken, Factors influencing manufacturing development in South Dakota. MS thesis in economics. Brookings: South Dakota State University, 1980.

[6]Goeken, 1980.

[7]Harold F. Schaff, Evaluation of selected local development corporations in North Dakota. MS Thesis. Fargo: North Dakota State University, 1978, p. 4.

[8]In two of the regression models, a negative relationship between the tax level and manufacturing employment growth was found. Results were not highly significant, however, in regression models with either positive or negative tax-employment growth findings.

Table 1. Abbreviated descriptions of variables used in regression analyses of manufacturing employment change.

DEPENDENT VARIABLES:

Y_1 = ABCHME = absolute change in manufacturing employment (1971-77)
Y_2 = CHMFEMZ = percentage change in manufacturing employment (1971-77)

INDEPENDENT VARIABLES:

Transportation Access

D_1 = ROAD1 = interstate access within adjacent county, 1970
D_2 = ROAD2 = interstate access within county, 1970

Educational Facilities

D_3 = COLLEGE = four year college or university in county
D_4 = VOED = post-secondary vocational education facility in county

Labor Force Availability

X_1 = UNEMPLOY = county unemployment rate, 1970
X_2 = UNDEREMP = underemployment, 1970
X_3 = ECUTINDX = economic utilization index, 1970
X_4 = LFPR = total labor force participation rate, 1970
X_5 = FLFPR = female labor force participation rate, 1970
X_6 = AGE = age structure, 1970

Economic Structure and Agglomeration Factors

X_7 = POP70 = county population, 1970
X_8 = PRIORIND = prior degree of industrialization in county, 1970
X_9 = PPSQMILE = persons per square mile, 1970
X_{10} = LOCINDEX = location index
X_{11} = PERCAPIN = per capita income, 1969
X_{12} = POVERTY = percent of persons below poverty level, 1970
X_{13} = FIRE = fire protection rating, 1970
X_{14} = TAX = taxes, 1970

15

Table 2. Population and manufacturing employment data for South Dakota counties.

County	Population 1970	Manufacturing Employment 1971	Manufacturing Employment 1977	Absolute Change 1971-77	Percent Change 1971-77
Aurora	4,183	17	13	- 4	- 24
Beadle	20,877	871	981	110	13
Bennett	3,088	18	21	3	17
Bon Homme	8,577	45	309	264	587
Brookings	22,158	277	903	626	226
Brown	36,920	1,741	1,865	124	7
Brule	5,870	43	52	9	21
Buffalo	1,739	7	L	*	*
Butte	7,825	D	82	*	*
Campbell	2,866	19	34	15	79
Charles Mix	9,994	8	23	15	188
Clark	5,515	136	126	- 10	- 7
Clay	12,923	170	254	84	49
Codington	19,140	843	1,334	491	58
Corson	4,994	0	L	*	*
Custer	4,698	160	177	17	11
Davison	17,319	472	809	337	71
Day	8,713	119	108	- 11	- 9
Deuel	5,686	12	30	18	150
Dewey	5,170	5	15	10	200
Douglas	4,569	15	56	41	273
Edmunds	5,548	25	23	- 2	- 8
Fall River	7,505	80	84	4	5
Faulk	3,893	3	L	*	*
Grant	9,005	366	447	79	22
Gregory	6,710	23	43	20	87
Haakon	2,802	39	D	*	*
Hamlin	5,520	7	56	49	700
Hand	5,883	39	59	20	51
Hanson	3,781	17	11	- 6	- 35
Harding	1,855	1	11	10	1,000
Hughes	11,632	100	125	25	25
Hutchinson	10,379	70	157	67	124
Hyde	2,515	0	L	*	*
Jackson	1,531	4	L	*	*
Jerauld	3,310	13	13	0	0
Jones	1,882	1	L	*	*
Kingsbury	7,657	45	125	*	*
Lake	11,456	277	572	295	107
Lawrence	17,453	185	522	337	182

cont., next page

Table 2. continued.

County	Population 1970	Manufacturing Employment 1971	Manufacturing Employment 1977	Absolute Change 1971-77	Percent Change 1971-77
Lincoln	11,761	420	406	- 14	- 3
Lyman	4,060	41	L	*	*
McCook	7,246	90	111	21	23
McPherson	5,022	20	23	3	15
Marshall	5,965	11	178	167	1,518
Meade	17,020	105	336	231	220
Mellette	2,420	0	D	*	*
Miner	4,454	14	85	71	507
Minnehaha	95,209	6,174	6,834	660	11
Moody	7,622	13	66	53	408
Pennington	59,349	2,033	2,602	569	28
Perkins	4,769	33	57	24	72
Potter	4,449	31	38	7	23
Roberts	11,678	25	139	114	456
Sanborn	3,697	54	118	64	119
Shannon	8,198	D	154	*	*
Spink	10,595	31	21	- 10	- 32
Stanley	2,457	5	L	*	*
Sully	2,362	0	L	*	*
Todd	6,606	120	18	-102	- 85
Tripp	8,171	48	43	- 5	- 10
Turner	9,872	22	97	75	341
Union	9,643	140	874	734	524
Walworth	7,842	78	24	- 54	- 69
Washabaugh	1,389	0	0	0	0
Yankton	19,039	1,021	1,381	360	35
Ziebach	2,221	6	0	- 6	-100
South Dakota	666,257	17,064	23,048	5,984	35
U.S.	204,878,000	18,623,000	19,682,000	1,059,000	6

Sources: a) Population data for South Dakota and the individual counties were obtained from William H. Bergman, Bulletin No. 108, Handbook of manpower statistics for South Dakota (Vermillion, South Dakota: University of South Dakota, Business Research Bureau, 1973) pp. 50-209.

b) Manufacturing employment data were obtained from annual computer printouts of employment and income data from the Bureau of Economic Analysis, U.S. Department of Commerce.

c) Data for the United States were obtained from the Council of Economic Advisors and the President, Economic report of the President (Washington, D.C.: U.S. Government Printing Office, January, 1980) pp. 233, 242.

L = Less than 10 persons engaged in manufacturing employment.

D = Manufacturing employment data could not be published due to disclosure problems resulting from an insufficient number of firms engaged in manufacturing.

* = Statistic could not be calculated due to lack of data in one or both of the years of analysis. Thus, these counties are excluded from the regression analysis.

Table 3. Transportation mode for shipping goods and receiving materials: mean percent of volume by each mode for selected SIC (Standard Industrial Classification) categories[1].

SIC Categories	Transportation Mode: Shipping Goods (%) Truck Owned	Truck not Owned	Rail	Air	Other	Total	Transportation Mode: Receiving Materials (%) Truck Owned	Truck not Owned	Rail	Air	Other	Total	Number of Firms
20 (Food)	43	43	11	2	1	100	34	58	6	2	0	100	25
23 (Apparel)	73	26	0	1	0	100	61	34	2	2	1	100	11
24 (Lumber)	57	39	4	0	0	100	18	65	13	1	3	100	12
26 (Paper)	0	0	100	0	0	100	0	0	0	0	0	100	1
28 (Chemicals)	51	45	0	0	4	100	28	33	24	0	15	100	7
30 (Rubber, Plastics)	37	63	0	0	0	100	17	81	2	0	0	100	7
32 (Stone, Concrete)	80	18	0	1	1	100	48	52	0	0	0	100	9
34 (Metal Products)	31	69	0	0	0	100	25	75	0	0	0	100	4
35 (Machinery)	48	48	0	0	4	100	25	70	4	0	1	100	22
36 (Electrical)	24	59	0	2	15	100	6	93	0	1	0	100	7
37 (Transportation)	42	36	0	3	19	100	30	55	0	1	14	100	12
38 (Instruments)	0	98	1	1	0	100	0	92	8	0	0	100	2
All Categories	48	43	4	1	4	100	30	61	5	*	4	100	119

Source: Manufacturing firm survey

[1]The mean percentages have not been weighted by the tonnage shipped by individual firms within the SIC categories. The mean percentages for "All Categories" is weighted by the number of observations from each SIC category.

*Less than 1%.

Table 4. Transportation mode for shipping goods and receiving materials: mean percent of volume by each mode for selected city size intervals[1].

City Size Intervals (population)	Transportation Mode: Shipping Goods (%): Truck Owned	Truck not Owned	Rail	Air	Other	Total	Receiving Materials (%): Truck Owned	Truck not Owned	Rail	Air	Other	Total	Number of Firms
1 = 499	37	44	4	*	14	100	20	63	5	*	12	100	17
2 = 500-999	41	48	5	0	6	100	25	59	11	*	5	100	16
3 = 1000-2499	60	34	2	2	2	100	52	40	7	*	*	100	24
4 = 2500-4999	71	29	*	*	0	100	34	66	*	*	*	100	10
5 = 5000-9999	37	49	8	6	0	100	18	76	6	*	*	100	7
6 = 10,000-30,000	46	47	5	*	2	100	24	68	3	2	3	100	45
All Intervals	48	43	4	1	4	100	30	61	5	*	4	100	119

Source: Manufacturing firm survey.

[1]The mean percentages have not been weighted by the tonnage shipped by individual firms within city size intervals. The mean percentages for "All Intervals" is weighted by the number of observations from each size interval.

*Less than 1%; totals may not add to 100% in all cases, due to rounding.

Table 5. Type of financial assistance reported by LDCs, according to profit-nonprofit status.

LDC Type[2]	Of Firms Reported to Have Received Financial Assistance, Percentage Receiving Various Types of Assistance[1]					
	IRB	LTI	LPO	ASSIST	LOAN	OTHER
Profit	26	59	41	48	30	11
Nonprofit	12	10	39	32	24	15
Overall	18	29	40	38	26	13

Source: Local development corporation survey

[1]The variable names used in this table for the types of financial assistance refer to:

IRB = Industrial Revenue Bond
LTI = Local Tax Incentive
LPO = Lease/Purchase Option
ASSIST = Assist firm in obtaining financing from alternative sources
LOAN = funds loaned directly from LDC to firm
OTHER = other type of financial assistance

[2]Based upon 68 firms reported by LDCs to have received one or more forms of financial assistance and for which type of LDC (profit vs. nonprofit) was reported. Total of percentages across each row exceeds 100 because some firms received more than one type of financial assistance.

Table 6. Various development site attributes reported by local development corporations for firms they had helped attract.

By City Size in Which LDC Located (population)	Percentage of Firms Located on Sites with These Attributes			
	Firm Located on Development Site	LDC Owned Development Site	LDC Had Option on Development Site	Site Was in Zoned Development Area
500	80	80	0	100
500-999	56	19	17	50
1,000-2,499	76	59	33	45
2,500-4,999	55	73	10	82
5,000-9,999	83	83	0	100
10,000+	79	73	13	83
Overall	71	60	16	69

Source: Local development corporation survey

Table 7. Facilities at development site prior to firm location, by 2-digit SIC codes of manufacturing firms.

2-Digit SIC Code of Firms	Percentage of Firms Indicating Each Type of Facility Present at Development Site: Treated Water	Sewer	Rail	Paved Road	Electricity	Gas	Building	Number of Firms
20 (Food)	31	50	38	46	69	31	42	26
23 (Apparel)	61	46	8	69	92	54	31	13
23 (Lumber)	50	67	42	58	83	42	33	12
26 (Paper)	0	0	100	100	100	0	0	1
28 (Chemicals)	43	57	43	57	86	43	57	7
30 (Rubber, Plastics)	57	71	29	57	100	43	57	7
32 (Stone, Concrete)	54	27	54	46	64	18	18	11
34 (Metal Products)	40	60	20	60	60	60	60	5
35 (Machinery)	65	61	35	70	96	61	65	23
36 (Electrical)	71	57	0	57	86	14	86	7
37 (Transportation)	17	33	17	67	75	42	50	12
38 (Instruments)	50	100	50	50	100	100	50	2
Total	48	52	32	59	82	42	48	126

Source: Manufacturing firm survey

Appendix A Confidential survey of South Dakota manufacturing firms

Firm Name ______________________ Phone ____________

Address ______________________

City ______________________ Zip Code ____________

1. (a) What year did your firm begin production operations in the present community? _____
   (b) At that time, was this a take-over of a previous firm's operation in the community or was it a new operation in the community? Check one:
   ☐ Take-over of a previous operation ☐ New operation

2. Please list the major products your firm produces at this location? ____________

____

____

3. (a) What is the current (1979) total employment of your firm in this community? ____ employees
   (b) Is there much seasonal variation to employment in your firm here? ☐ Yes ☐ No
   (c) What was the approximate average monthly employment of your firm in this community last year (1978)? _____ employees

4. Factors Influencing Firm's Location Decision
   (a) Did the activities of a local development corporation in the community where your firm is located have an influence on the firm's decision to locate in South Dakota rather than some other state? Check one:
   ☐ Little or no influence ☐ Some influence ☐ Major influence

   (b) Did the activities of a local development corporation in the community where your firm is located have an influence on the firm's decision to locate in this community rather than other communities in South Dakota? Check one:
   ☐ Little or no influence ☐ Some influence ☐ Major influence

   (c) What type of building did your firm occupy at the time it first located in this community? Check one:
   (1) A building previously used by another firm or occupant ____
   (2) An already constructed but as yet unused speculative building ____
   (3) A new building constructed specifically by or for your firm ____
   (4) Other (please specify) ______________________

   (d) What type of purchase or rental agreement did your firm use for the building and adjacent industrial land at the time of initial location in this community? Check one:
   (1) Outright purchase ____
   (2) Ordinary lease ____
   (3) Lease-purchase agreement to pay off building financed with municipal revenue bonds ____
   (4) Other type of lease-purchase ____
   (5) Other (please specify) ______________________

   (e) Prior to your firm's final decision to locate in this community, which, if any, of the following facilities already existed at the industrial site (as far as the industrial site property line, that is, and not necessarily all the way to the building)? Check each that existed:
   (1) Rail ____ (5) Sewer ____
   (2) Gas ____ (6) Building ____
   (3) Electricity ____ (7) Hard surface road ____
   (4) Treated water ____ (8) Other (specify) ____________

   (f) Were there any special considerations related to water supply involved in the firm's decision on which South Dakota community to locate in? ☐ Yes ☐ No
   If Yes, please explain: ______________________

   ____

27

5. Details of Firm's Water Use

(a) What is the source(s) of water used by your firm? Please estimate the amounts drawn from each source in 1978 by the plant and indicate the major use of water from each source:

Source	Approximate amount drawn in 1978, in gallons or cu. ft. (indicate which)	Major use in the plant (production purposes? cooling? drinking & sanitation? fire protection? other?
Municipal system		
Private well(s)*		
Other (please specify; e.g., rural water system)		

*Exclude wells used essentially as storage for municipal or other water.

(b) If more than one source is used, briefly indicate why: ____________

____

____

(c) If water is used for production or cooling purposes:
(1) Does water recycling take place in the plant? ☐ Yes ☐ No
(2) What kind of water quality is required for production or cooling?

____

____

(3) Does the firm have to treat to get this quality? ☐ Yes ☐ No
(4) If treatment required, of what nature? ____________

____

(d) If municipal system is used at all for plant water supply and water line did not already reach edge of the industrial site at the time firm located here (see 4,e on previous page):
(1) How long was the needed line extension? ________ft.
(2) Who paid for the water line extension? Check one:
☐ Municipal water authority paid for.
☐ Cost was shared by firm and municipal water authority or other public body.
☐ Cost was paid for entirely by firm.
☐ Other arrangement (please specify): ____________
(3) If costs were shared, what portion was born by the firm? Check one:
☐ Less than 30% of the costs of extension.
☐ 30% - 60% of the costs of extension.
☐ More than 60% of the costs of extension.

(e) For the purposes of fire protection:
(1) Does the plant have a sprinkler system? ☐ Yes ☐ No
(2) Does the plant have its own water tower? ☐ Yes ☐ No
(3) If there are problems with water supply for purposes of fire protection, please note them: ____________

____

(f) Has the firm encountered water problems of any kind that might hinder plant expansion in this community? ☐ Yes ☐ No

If Yes, please specify nature of problem(s): ____________

____

6. Details of Firm's Transportation

(a) Listed below are principal methods of transportation generally used in shipping manufactured products and in receiving materials from suppliers. Please indicate the approximate percentage (%) of your tonnage shipped by each method during 1978.

	Transportation Method					
	Truck*					
	Owned by Firm Itself	Not Owned by Firm Itself	Rail	Air	Other	Total
(1) Products shipped by your plant: % by each method						100%
(2) Materials received at your plant from suppliers: % by each method						100%

*Ignore truck deliveries of 10 miles or less to or from other means of transport.

(b) For each method of transportation used, indicate approximate frequency of delivery. Use the following codes:
D - Daily M - More often than weekly, but not daily W - Weekly
L - Less often than weekly, but on some regular basis

Note: Indicate NA (not applicable) for those methods accounting for less than 5% of volume in each row.

	Transportation Method				
	Truck*				
	Owned by Firm Itself	Not Owned by Firm Itself	Rail	Air	Other
(1) Products shipped by your plant: delivery frequency					
(2) Materials received at your plant from suppliers: delivery frequency					

*Ignore truck deliveries of 10 miles or less to other means of transport.

(c) Has the firm encountered transportation problems of any kind that hinder delivery of the firm's products or of materials it purchases, or are particular problems anticipated? ☐ Yes ☐ No

If Yes, please specify nature of problem(s): ____________________

____

____

Respondent's name and title: ____________________

Please return questionnaire in the enclosed stamped, self-addressed envelope to:

Rural Industrial Development Project
Economics Department
South Dakota State University
Brookings, SD 57007

29

Appendix B Confidential survey of South Dakota local development corporations

Local Development Corporation Name ______________________________

Address ______________________________ Phone ______________

City ______________________________ Zip Code ______________

1. What year was your development corporation established in this community? ________
   Is the development corporation a profit or non-profit organization?
   ☐ Profit ☐ Non-Profit

2. Has your local development corporation been successful in influencing any manufacturing firms to locate in the community since 1970? ☐ Yes ☐ No
   If no, proceed to question number 5.
   If yes, please specify up to three firms which the development corporation has recently helped to locate in the community and complete the table:

Firm Name	Did the firm locate on a specially designated development site		Did your local development corporation own or have an option to buy the site				Was the site within a formally zoned industrial area	
			Owned		Option to buy			
	Yes	No	Yes	No	Yes	No	Yes	No
A.								
B.								
C.								

Note. For the remainder of the questionnaire, the firms and the sites which they located on will be referred to by the letters A, B or C associated with their names in question 2. (It is possible that two or all three firms are on the same development site. If so, note that here: ______________________________
______________________________)

3. Which of the following facilities were provided at the development site(s) prior to the firm's decision to locate there (facilities already at the site or passing by the site and ready to be hooked on to)? Check appropriate category(s) for each site:

Firm	Treated Water	Sewer System	Rail Service	Paved Road	Electricity	Gas	Building
Firm A.							
Firm B.							
Firm C.							

2-112 O - 85 - 6

4. Has your local development corporation aided in financing any of these firms?
☐ Yes ☐ No If yes, check the financial assistance alternatives used for each firm:

Firm A	Firm B	Firm C	Financial Assistance Alternatives
			industrial revenue bonds
			local tax incentives (e.g., tax moratorium)
			lease-purchase option on building and land
			assistance to firm in obtaining financing from other sources, such as commercial banks or the Small Business Administration
			funds loaned directly from development corporation to firm
			other (please specify: ______

5.(a). Does your development corporation currently own or have an option to buy a development site(s)? ☐ Yes ☐ No
(b). If yes, the site(s) is/are (check one):
☐ owned by the development corporation.
☐ held on option by the development corporation.
☐ controlled by a combination of ownership and option agreements.
(c). If yes, approximately how many additional firms could locate on the site(s) controlled by the development corporation? ____ firms

6. Which of the following functions of a local development corporation do you view as being the most important in attracting industry? Rate the following factors from 1 through 8, with 1 being the most important.

___ Provide managerial and engineering counseling services of a technical nature
___ promote good business climate and serve as liason between industry and various community groups
___ conduct economic surveys of the area (e.g., labor surveys)
___ make inventories of all available industrial land and buildings in the area
___ play direct role in making industrial sites and buildings available to firms--by development corporation options, ownership, lease-purchase arrangements, etc.
___ directly assist in financing
___ assist firms in obtaining financing from other sources, such as commercial banks or the Small Business Administration
___ give tours of area to prospective firms

Respondent's name and position: ______

Please return questionnaire in the enclosed stamped, self-addressed envelope to:

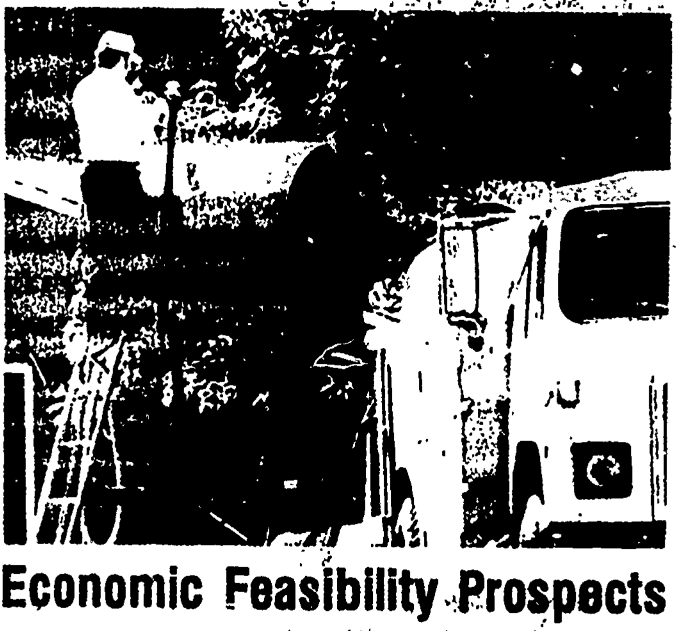
Rural Industrial Development Project
Economics Department
South Dakota State University
Brookings, SD 57007

31

T. Dobbs' Attachment B

B 687
June 1983

Small-Scale Fuel Alcohol Production from Corn:



Economic Feasibility Prospects

Agricultural Experiment Station • South Dakota State University • Brookings, SD South Dakota

Contents

Preface

This publication on the economic feasibility of fuel alcohol production is based upon research conducted at South Dakota State University (SDSU) from 1981 through 1983. It is a companion to our recently published report entitled <u>A Small Scale Plant: Costs of Making Fuel Alcohol</u> (SDSU Agricultural Experiment Station Bulletin 686, September 1982). That bulletin detailed the costs involved in fuel alcohol production. The present bulletin compares those costs to estimated returns from fuel alcohol and the feed byproduct. Both costs and returns are calculated on a 1981 basis.

The economic analysis reported in this bulletin and in Bulletin 686 constitutes part of a larger, interdisciplinary fuel alcohol study involving SDSU personnel in several departments. We wish to acknowledge the following individuals who have provided materials, data, and advice: Carl Westby and Bill Gibbons, Microbiology Department; Ralph Alcock and Kurt Bassett, Agricultural Engineering Department; Tom Chisholm and Scott Stampe, formerly in the Agricultural Engineering Department; Clayton Knofczynski, Mechanical Engineering Department; Andrew Clark and Howard Voelker, Dairy Science Department; and L. Ben Bruce, Animal and Range Science Department. Special acknowledgement is given to Dr. Ardelle Lundeen, our colleague in the Economics Department who reviewed various report drafts and collaborated with us in some aspects of the alcohol fuels research.

Research funds for this study were received from the South Dakota Agricultural Experiment Station and from USDA Special Research Grant No. 59-2461-0-2-099-0.

Published in accordance with an Act passed in 1881 by the 14th Legislative Assembly, Dakota Territory, establishing the Dakota Agricultural College and with the Act of re-organization passed in 1887 by the 17th Legislative Assembly, which established the Agricultural Experiment Station at South Dakota State University. File: 5.4-7 or 6.3-2--2M--6-83mb--AX 039

Reference to products is not intended to be an endorsement to the exclusion of others which may be similar. Persons using such products assume responsibility for their use in accordance with current directions of the manufacturer.

Small-Scale Fuel Alcohol Production from Corn:
Economic Feasibility Prospects

Thomas L. Dobbs, professor, and *Randy Hoffman*, research associate
Economics Department

Summary

Returns were compared to costs for a small-scale fuel alcohol plant in this study. Returns were based on use or sale of 185 proof alcohol and a semi-wet distillers wet grain (DWG) feed byproduct. Costs were based on a plant using corn as the feedstock and producing 175,000 gallons of alcohol per year.

Given the assumptions used in our analysis, small- or community-scale alcohol plants similar to the one focused on do not appear economically feasible at present. Only under a combination of optimistic assumptions--about price relationships and other variables--do investments in small-scale plants appear to have much chance of paying off.

Continued improvements in technologies for producing and using fuel alcohol could improve the economic prospects. For example, the ability to efficiently produce anhydrous alcohol in small-scale plants could improve the marketability and economic value of the fuel product. Similarly, future sharp increases in the costs of gasoline would increase the value of fuel alcohol as a substitute or extender, thereby enhancing the economic feasibilty of alcohol plants. It is also possible that certain feedstocks other than corn might result in lower costs per gallon of alcohol.

Introduction

Are small-scale fuel alcohol plants, with corn as the feedstock, economically feasible? We attempt to answer that question in this report by comparing costs of producing hydrous alcohol and distillers wet grain (DWG) in a small-scale alcohol plant and transporting the products to users with returns from the sale or use of the products.

Details of the small-scale alcohol plant cost analysis are contained in a companion bulletin entitled A Small-Scale Plant: Costs of Making Fuel Alcohol (SDSU Agricultural Experiment Station Bulletin 686, September 1982) by Hoffman and Dobbs. Analysis contained in that report was based on interdisciplinary research carried out with the pilot fuel alcohol plant on the South Dakota State University (SDSU) campus.

Since costs in that bulletin were based upon 1981 price levels and methods of technical operation, returns included in the present bulletin are also calculated on a 1981 basis. In the companion bulletin, costs were calculated for two possible plant sizes and levels of annual output. Only the larger size--

capable of producing 175,000 gallons of 185 proof alcohol and 1,356 tons of 70% moisture DWG per year--will be referred to in this bulletin. Costs per gallon of alcohol were less in the larger plant.

Costs presented in Bulletin 686 for the "baseline" case with the larger plant were $1.78 per gallon. That estimate was derived under the following assumptions: (1) each bushel of corn yields 2.6 gallons of 185 proof alcohol; (2) corn costs or is worth $2.50 per bushel; (3) the annual interest rate at which the cost of capital is amortized is 15%; and (4) the feed by-product is worth $39 per ton, based on its nutritional value in a combination of dairy heifer and cow rations. Changing the values in the assumptions led to a range of cost estimates for alcohol from the larger plant. Those estimates were as low as $1.59 per gallon and as high as $2.30 per gallon. Methods of plant operation other than the "standard" procedure could also lead to different cost estimates. (SDSU staff experimenting with the plant have tried various types of stillage supernatant recycling, for example.)

Feed byproduct credits were deducted in arriving at the above fuel alcohol cost estimates. Only dairy rations were considered as uses for the feed byproduct in Bulletin 686. In the present bulletin, the focus for feed byproduct use is broadened to include beef rations. Consequently, we show how utilization of the feed byproduct for either beef or dairy animals might affect net costs of fuel alcohol production.

An analysis of possible farm utilization and value of 185 proof fuel alcohol was also developed, drawing on SDSU engineering experiments in fuel substitution.

Transportation costs involved in distributing fuel and feed produced by a small-scale plant are also treated in this study. (Those costs were not included in Bulletin 686.) With their inclusion, the necessary ingredients for an economic feasibility analysis of small-scale alcohol production are in place. Transportation costs can be subtracted from fuel and feed use values. Production costs can then be subtracted from the combined returns (net of transportation costs) to indicate whether or not a plant is likely to be profitable.

Tax laws can also affect costs and returns. Income tax credits available for use of hydrous alcohol are accounted for in the treatment of fuel values. Investment tax credits are not treated in detail, but their possible effects on costs are noted.

For purposes of the transportation analysis in this study, it was assumed that the fuel alcohol plant is located in the center of Moody County. That county is situated in eastern South Dakota, along the border with Minnesota. The transportation analysis was intended not only to determine dollar costs of moving fuel and feed to users, but also to indicate the probable marketing territory size for a small- or community-scale plant.

For brevity, many details of our analyses are not included in this report. Details of the cost analysis are contained in Bulletin 686, available from the senior author or from the Bulletin Room at SDSU. The senior author will also provide details of the fuel and feed returns analyses on request.

Utilization, Value, and Marketing of Fuel Alcohol

The alcohol plant used as the model for this analysis is capable of producing alcohol of around 185 proof. Alcohol with this much water cannot readily be mixed with gasoline to be used as gasohol. Therefore, it must be considered as the sole fuel source for gasoline and diesel engines or must be injected into those engines via modified equipment. The extent to which the average farm consumer is able and willing to modify his farm machinery engines to run on alcohol will determine both the value of the alcohol and the marketing area that will be needed to dispose of the plant's annual output.

Value of fuel alcohol in farm operations[1]

Fuel alcohol can be used in both diesel and gasoline farm engines. The amount of fossil fuels assumed replaced by alcohol in this report has been determined from studies conducted by the Agricultural Engineering Department at SDSU and by consultation with SDSU agricultural engineers. One of these studies (Bassett 1981a) involved altering a Ford 8000 diesel tractor for fuel alcohol use by installing an M & W Gear Co. turbocharger and "Aquahol" injection system.

Results showed that this modification allowed 10% of the diesel fuel to be replaced by alcohol fuel without a significant change in power output. However, 1.54 units of 185 proof alcohol were required to replace each unit of diesel fuel. This indicates that 185 proof alcohol used in diesel engines is worth approximately 65% of the value of diesel fuel. In 1981, with diesel fuel at $1.15 per gallon, that would have amounted to $.75 per gallon.

From this value we must subtract the cost of modifying the diesel tractor. The cost of purchasing and installing an M & W injection kit in 1981 would have been approximately $800. If a turbocharger is not already present, that also must be installed. That would cost an additional $900. The total modification cost of $1,700 amortized at 15% over 5 years equals an annual cost of about $500. However, we assume in this analysis that the diesel tractors converted for alcohol use already have turbochargers. Therefore, annual (amortized) engine conversion costs are only $238 per tractor. The annual cost of modification per gallon of alcohol depends, of course, on how much alcohol is used in the tractor over the course of the year.

In another SDSU study, Bassett and Chisholm evaluated the performance of alcohol fuel used in an Oliver 1550 gasoline tractor. Gasoline was used for cold starting, and then the engine was switched to alcohol after warm-up. Installation of a separate fuel tank at the front of the tractor and some cerburetor adjustments were required.

The alcohol in their study had an 11% higher thermal efficiency than gasoline, and its maximum power was 19% less than gasoline. Horsepower per gallon was also lower for alcohol than for gasoline. Evaluation of these results led us to assume that ethanol can be substituted for gasoline in farm tractors in a ratio based on relative BTU values of the two fuels.[2] On this basis, it would require 1.65 gallons of 185 proof alcohol to replace each gallon of gasoline. Hence, when used in gasoline engines, 185 proof alcohol is worth 61% of the value of gasoline. In 1981, with gasoline costing about $1.30 per gallon, the alcohol value would have been $.79 per gallon.

As in the case of diesel engines, the cost of modifying a gasoline tractor to run on alcohol should be subtracted from the replacement value of alcohol. The total cost of engine adjustments and extra parts on a gasoline tractor would be approximately $200. Amortizing this cost over 5 years at 15% interest results in an annual modification cost of about $80. The annual modification cost per gallon of alcohol depends on the amount of alcohol used in the tractor during the year.

[1] For more details concerning the assumptions and calculations in this section, contact the senior author of this bulletin.

[2] This decision was reached in consultations with Mr. Ralph Alcock of the SDSU Agricultural Engineering Department.

Two other studies have also recently been conducted at SDSU involving the replacement of gasoline with ethanol. One, by Kelkar, concerned the performance of alcohol used in a stationary gasoline engine: a 10%-90% mixture of 186 proof alcohol and gasoline could provide power equal to that of gasoline alone, and would not require a larger volume of fuel to be burned. However, because of questions about the stability of this mixture, especially at cooler temperatures, we decided not to assume that hydrous alcohol could be mixed with gasoline in farm applications at this point.

Another study, conducted by Bassett (1981b), involved the use of 190 proof alcohol in a 1974 Dodge pickup. Low mileage, problems with start-ups, and engine kill after stops were initial results.

Income tax credit

An income tax credit can be obtained for use of straight alcohol (with denaturant) as a fuel in a trade or business. Thus, persons buying and using alcohol from a plant such as the one depicted in this report would be entitled to file for an income tax credit. In 1981, this tax credit provision was worth $.30 per gallon for alcohol of at least 150 but less than 190 proof (Internal Revenue Service). At the present time, however, the credit is now worth $.375 per gallon of alcohol in that proof range (U.S. Congress).[3] A farm user of alcohol fuel who can benefit from additional income tax credits would presumably be willing to pay more for the fuel than he would be in the absence of this tax credit provision. We assume for purposes of analysis that a farmer would pass the full credit on in terms of a higher purchase price for fuel alcohol.

We use here the 1981 credit of $.30 per gallon, to be consistent with other 1981 costs and prices in the analysis.

Whether the currently higher credit--approximately $.08 more than it was in 1981 on 185 proof alcohol--is likely to make much difference in the economic feasibility of small-scale alcohol plants is discussed later in the report.

Local marketing possibilities: Moody County example

A cost that should not be overlooked is that of delivering fuel alcohol to farm customers. Transportation costs for delivery from the hypothetical Moody County plant have been estimated on the basis of certain assumptions about average liquid fuel use per farm and the spatial distribution of fuel alcohol consuming farms.

Agricultural fuel usage in Moody County.--The alcohol plant hypothetically located in Moody County is assumed to produce 175,000 denatured gallons of 185 proof alcohol per year. Fuel usage on an average farm in Moody County is needed to determine the number of farms required to consume this amount of fuel alcohol, and ultimately the required number of miles involved in delivering the alcohol. Table 1 depicts the diesel and gasoline usage of such a farm in 1978. The number of gallons of 185 proof alcohol needed to replace 25% of a farm's gasoline usage and 10% of a farm's diesel usage are also shown.

There are obviously a number of assumptions that could be made concerning how much gasoline or diesel fuel might be replaced by ethanol in farm use. For a base case, we have assumed that 25% of each farm's gasoline usage can be replaced by 185 proof alcohol. Under that assumption, each average-sized Moody County farm would be able to utilize 883 gallons of 185 proof alcohol annually. Therefore, a total of 198 farms would be needed to consume the plant's annual alcohol output of 175,000 denatured gallons.

[3]In 1981, an income tax credit of $.40 per gallon could be obtained for use of alcohol that was at least 190 proof. The credit for alcohol of this proof level is currently $.50 per gallon.

Table 1. Potential annual fuel alcohol use on an average Moody County, South Dakota farm in the base case[1]

Fuel	Total annual fuel usage[2] (gallons)	Volumetric value relative to 185 proof alcohol[3]	Gallons of 185 proof alcohol for 25% replacement of gasoline and 10% replacement of diesel fuel
Gasoline	2,140	1.65	883
Diesel fuel	2,082	1.54	321
Totals	4,222		1,204

[1]An average Moody County farm contained 382 acres of cropland and pasture land in 1978.

[2]Information on fuel usage per farm and number of farms in Moody County was drawn from the 1978 Agricultural Census.

[3]The volumetric value figure for diesel fuel is based on an experiment done by SDSU agricultural engineers in which 10% of diesel fuel volume was replaced by ethanol. The volumetric value of gasoline in comparison to 185 proof alcohol was calculated in this table on a straight BTU substitution basis.

Fuel delivery costs in base case.--The total cost of delivering fuel alcohol to the farms that can make use of it is dependent on two factors: (1) the fixed cost of purchasing or renting a bulk gas truck; and (2) the variable costs of operating the truck, which in turn depend on the number of miles that must be traveled.

Calculating the cost of purchasing a bulk gas truck is a straightforward task, but determining the total mileage of the delivery route involves making two assumptions. The first assumption is that the 782 farms in Moody County are evenly distributed geographically throughout the county. Thus, on average, there are three farms located on every two square miles. This means that the fuel marketing territory necessary to reach 198 farms is about 132 square miles.

The second assumption is that the 198 farms that will be using the alcohol output are those located nearest to the alcohol plant. Hence, fuel delivery costs are based on the lowest possible mileage.

From the above information, a schedule for delivering the fuel alcohol in Moody County was determined as follows:

(1) A bulk gas truck with a tank capacity of 2,500 gallons is used to deliver the alcohol.

(2) Each day that deliveries are scheduled, the truck will deliver 400 gallons of fuel alcohol to each of 12 farms.

(3) The truck will deliver fuel to each of the 198 farms twice per year. A third delivery of 83 gallons will need to be made to

supply the necessary 883 gallons needed annually by each farm. It is assumed that the farmers will be able to spread their alcohol use out evenly for the year, and that the farmers will be responsible for providing on-farm fuel storage capacity that is sufficient to do so.

In Figure 1, the shaded area of Moody County represents the marketing territory (the 198 farms nearest to the alcohol plant). Given all the previously stated assumptions, the total distance the delivery truck would have to travel to make one delivery to each of these farms would be approximately 422 miles for the first two deliveries. The third delivery requires only 197 miles in travel because more farms can be reached per bulk truck tankful due to the smaller volume delivered to each farmstead. Therefore, the total annual mileage for delivery of the fuel alcohol would be 1,041 miles. This mileage was increased 5%, to 1,093 miles, to account for miscellaneous travel.

Costs for delivering the fuel alcohol under these conditions are presented in Table 2. Because the alcohol plant only requires the gas truck one fourth of the time, it is assumed that the truck is available for some other use the remaining time. Therefore, only one fourth of the annual fixed cost of owning the delivery truck is assigned to the alcohol plant, or $.01 per gallon of alcohol produced and delivered.

The operating costs of delivering the fuel alcohol to consuming farms add another $.013 per gallon, of which $.011 goes for labor payments to the truck driver (Table 2). Combining fixed and operating delivery costs indicates that $.02 needs to be added to the cost of producing each gallon of fuel alcohol to account for transportation.[4]

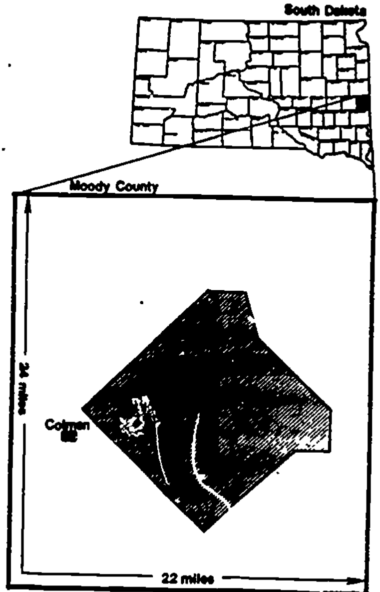


Figure 1: Marketing territory encompassing fuel alcohol delivery to the 198 farms nearest the alcohol Plant.

★ Alcohol Plant Site
▨ Area Covered by Delivery Route

Engine conversion costs in base case.--A gasoline driven tractor could be converted to run on straight alcohol for an annual cost of about $80. We assume in the base case that 25% of each farm's annual gasoline usage can be displaced by alcohol. In calculating per gallon

[4]The assumption that the 198 farms closest to the alcohol plant would be those using all of the alcohol is not necessarily totally realistic. However, even if the alcohol marketing territory were to triple in size, it is estimated that per gallon delivery costs would rise by less than 1/2¢.

Table 2. Fixed and operating costs associated with the alcohol fuel delivery truck in the base case (175,000 denatured gallons of 185 proof alcohol delivered)

A. Fixed costs

Item	Full capital cost	Useful life (years)	Full annual amortized cost (15% interest)	1/4 of annual amortized cost	Cost/gallon of alcohol delivered
Bulk gas truck	$25,000	10	$4,975	$1,244	$.007
Vehicle license & insurance	2,300	1	2,300	575	.003
Tires	1,100	5	328	82	.000*
Subtotals	$28,400		$7,603	$1,901	$.010

B. Operating costs

Item	Cost/unit	Units/year	Annual cost	Cost/gallon of alcohol delivered
Gasoline	$1.30/gal	219 gal[1]	$ 284.70	$.002
Oil, filter, grease	$17.25/change	2 changes	34.50	.000*
Labor	$5.00/hr	396 hours[2]	1,980.00	.011
Antifreeze	$15.00/change	1/4 change	3.75	.000*
Tune-up	$200/job	1/4 job	50.00	.000*
Subtotals			$2,352.95	$.013
TOTALS OF A AND B =			$4,253.95	$.023 ($.02, rounded)

*The annual cost per denatured gallon of alcohol is so small that it rounds to 0 at three decimal places.

[1] 1,093 miles/year ÷ 5 miles/gallon = 219 gallons.

[2] 8 hours per day x 16.5 days per route x 3 routes per year = 396 hours

engine conversion costs, it is further assumed that one converted gasoline tractor on each farm will be able to burn all of the alcohol.

Therefore, the cost to each farm for converting a gasoline tractor engine to run on 185 proof alcohol is estimated as follows:

$$\frac{\text{\$80/yr/farm for engine conversion costs}}{\text{883 gal of 185 proof used/farm/yr}} = \text{\$0.09 engine conversion cost/gal of alcohol}$$

<u>Fuel delivery and engine conversion costs under other assumptions</u>

Other fuel displacement assumptions lead to different estimates of delivery costs and engine conversion costs. One different assumption included in the analysis was that farmers in the vicinity of the alcohol plant would replace 10% of their diesel fuel with alcohol--in addition to 25% of their gasoline fuel, as in the base case. The typical Moody County farm would then utilize 1,204 gallons of 185 proof alcohol, compared to 883 gallons in the base case (Table 1). This would reduce the number of farms required to consume the alcohol fuel from 198 to 145, also reducing travel miles to deliver the fuel. However, calculations indicate that delivery costs per gallon of alcohol would be reduced by only a fraction of a cent.

That very small reduction in fuel transport costs would be greatly offset by increased engine conversion costs. For the small amount of diesel fuel displacement, significant engine conversion costs would be involved. Annual diesel and gasoline engine conversion costs <u>combined</u> are estimated to be $.26 per gallon of alcohol, compared to $.09 per gallon in the base case involving only gasoline displacement. Under these circumstances, it clearly would not be reasonable to expect many farmers to purchase fuel alcohol to replace diesel fuel.

Though technical factors appear to greatly limit on-farm use of hydrous alcohol at present, new technology might greatly expand the potential for use of such fuel at some point in the future. Tractors might be designed and manufactured specifically for alcohol fuel use, for example. With the <u>possibility</u> of much greater on-farm use of fuel alcohol in mind, transportation costs were estimated with the assumption that 50% of <u>both</u> diesel and gasoline on farms could be replaced by hydrous alcohol. However, since engine conversion costs in this case <u>or</u> costs of designing and manufacturing tractors to burn fuel alcohol are not known, these costs were not included.

Table 3 contains the set of fuel displacement assumptions for this portion of the analysis. The amount of ethanol required to replace each gallon of <u>gasoline</u> is the same as that shown in Table 1. However, a larger amount of ethanol per gallon of <u>diesel</u> fuel displaced is assumed in Table 3 than in Table 1. With the larger quantity of diesel fuel displaced per farm in Table 3, with no experimental data to draw on for such a large displacement, it seemed advisable to assume that the ethanol would substitute for diesel fuel in quantities proportional to their relative BTU values. On that basis, there is a need for 1.96 gallons of 185 proof alcohol for each gallon of diesel fuel displaced.[5]

The combination of a higher substitution rate of alcohol for diesel fuel and larger replacement percentages for both diesel fuel and gasoline increases annual per farm use of alcohol to 3,806 gallons in Table 3, compared to only 1,204 gallons in Table 1. The number of farms required to consume the plant's 175,000-gallon per year alcohol output is reduced from 198 in the base case (gasoline data from Table 1) to 46 in this case. Those 46 farms would represent a marketing

[5]Information on the BTU contents of ethanol, gasoline, and diesel fuel was drawn from Durland and Kelly and from the U.S. Department of Agriculture.

Table 3. Potential annual fuel alcohol use on an average Moody County, South Dakota farm, assuming 50% replacement of both gasoline and diesel fuel[1]

Fuel	Total annual fuel usage[2] (gallons)	Volumetric value relative to 185 proof alcohol[3]	Gallons of 185 proof alcohol for 50% replacement of diesel fuel and gasoline
Gasoline	2,140	1.65	1,766
Diesel fuel	2,082	1.96	2,040
Totals =	4,222		3,806

[1]An average Moody County farm contained 382 acres of cropland and pasture land in 1978.

[2]Information on fuel usage per farm and number of farms in Moody County was drawn from the 1978 Agricultural Census.

[3]Volumetric value figures are based on the straight substitution of BTU's per gallon between 185 proof alcohol and both diesel fuel and gasoline.

territory of 31 square miles, about one fourth the base case territory.

In spite of the much smaller fuel marketing territory, estimated delivery costs are only a fraction of a cent per gallon less than in the base case. One reason for this is that fixed costs of owning the delivery truck are about the same in each case. A second reason is that the time a truck driver would need to be hired and paid for is not greatly less in this alternative case than in the base case. Hence, even with the reduced transport miles, fuel delivery costs are still around $.02 per gallon.

Furthermore, the use value of the alcohol would be lower in this case than in the base case. This is due in part to the large amount of alcohol required to replace each gallon of diesel fuel compared to the amount required to replace each gallon in the base (gasoline only) case. In addition, since the value of alcohol is determined by the cost of the fuel it replaces, alcohol would be worth less when replacing large amounts of diesel fuel; the price of diesel fuel is less than that of gasoline.

Conclusions on returns from sale or use of 185 proof alcohol

Estimates of fuel value and delivery costs can now be used to draw conclusions on the possible returns from sale or use of 185 proof alcohol. Estimates from the base case can be used in the following formula:

Return on ethanol = Replacement value of ethanol − Engine conversion cost − Fuel delivery cost + Income tax credit

Placing the <u>per gallon</u> estimates from the base case in this formula yields the following result:

Return per gallon
of ethanol = \$.79 - .09 - .02 + .30 = \$.98

We can see that the sale value of alcohol from the small-scale plant would be a little less than \$1 per gallon under these assumptions. With the current income tax credit on 185 proof alcohol of \$.375 per gallon rather than the \$.30-credit in effect during 1981, the alcohol return increases to around \$1.05 per gallon.

The alternative fuel use assumptions discussed would likely lead to lower net returns than do those in the base case. Hence, the base case fuel returns will be used in the remainder of this report. (Some mention will be made in the Conclusions section about the possibility of marketing hydrous alcohol to plants that would dehydrate it for use in gasohol.)

<u>Utilization, Value, and Marketing of Distillers Wet Grain</u>

Revenues from the sale of distillers wet grain (DWG) will very strongly influence economic feasibility prospects for fuel alcohol plants. Although some other studies have contained estimated revenues from the feed byproducts of alcohol plants, little attention has been devoted to handling and marketing costs. The present study does consider transportation costs, as well as costs of preserving the 70% moisture feed byproduct.

<u>Value of DWG used in dairy rations</u>

Most of the nutrition research done on use of alcohol plant feed byproducts indicates that the use value is greatest in rations of ruminant livestock. Thus, both beef and dairy animals are likely users of DWG supplies. In our earlier study (Hoffman and Dobbs), we examined the use of DWG in dairy rations. The conclusions, based on 1981 feed costs, are: value in dairy heifer rations, \$65.85/ton; value in lactating dairy cow rations, \$46.15/ton; and an average of the two, \$56.00/ton.

From these values, \$12.60/ton was subtracted for propionic acid costs. It was felt that propionic acid might be needed in some circumstances to assure that spoilage of DWG is prevented for approximately 2 weeks. This deduction resulted in net feeding values equaling \$53.25 for heifers, \$33.55 for cows, and \$43.40 for an average of the two.

Since transportation costs were not estimated in the earlier study, a discount of 10% was applied to account for special handling and transportation costs. This left <u>net</u> feed sale or use values of \$48/ton for heifers, \$30/ton for cows, and \$39/ton for the average. On a per gallon of alcohol fuel produced basis, the byproduct values resulted in credits of \$.37, \$.23, and \$.30 for heifers, cows, and the average, respectively.

<u>Value of DWG used in beef rations</u>

The AGNET computer system was used to estimate feeding values of DWG in beef rations. The "Feedmix" program was utilized in early 1982, with feed prices as of 1981. The program determines the least-cost ration, given different available feeds, feed prices, and nutrition coefficients for alternative rations. Key assumptions in the beef ration analysis were the following:

(1) the focus would be on feedlot rations,

(2) cattle would enter the feedlot at 700 pounds and leave at 1,100 pounds, and

(3) each animal would gain an average of 2.75 pounds per day—thus allowing for 145 days on rations consisting partially of DWG.

Given various assumptions used in the analysis,[6] we found that DWG could economically substitute for some of the other protein supplements, some alfalfa, and some corn in beef feedlot rations. The least-cost rations included an average of 7.14 pounds of DWG (on a 70% moisture basis) per day per animal. At this level of use, DWG had a value of $30.80/ton in the beef rations.

Subtracting $12.60 per ton for propionic acid results in a value of $18.20/ton. A further 10% deduction for handling and transportation costs yields a net feed sale or use value in beef rations of $16/ton, or $.13 per gallon of alcohol produced. This is a much lower feed byproduct value than was estimated for the dairy animal rations.

The following section contains estimates of transportation costs for distributing the feed byproduct, so that the very rough 10% deduction can be altered.

Local marketing possibilities: Moody County example

The DWG marketing analysis is concerned with determining the costs of transporting DWG from the hypothetical Moody County alcohol plant site to consuming beef farms. The cost estimates are dependent on assumptions about the average amount of DWG that can be consumed per farm and the spatial distribution of beef cattle fattening farms throughout Moody County.

The hypothetical fuel alcohol plant is capable of producing about 1,356 tons of 70% moisture DWG annually. To calculate the costs of delivering that annual output to consuming farms, we had to know the average DWG consumption capability of each individual farm. The 1978 Census of Agriculture shows that an average Moody County beef fattening farm sells 81 head of cattle annually. Given the previous assumptions on DWG consumption per animal, the amount of DWG each beef fattening farm can be expected to purchase each year is computed as follows:

(81 head per farm)(7.14 pounds of DWG/head) (145 days/head in feedlot) = 83,859.3 pounds of DWG fed per farm per year, or about 41.9 tons

With each beef fattening farm using 41.9 tons of DWG annually, the alcohol plant's output of 1,356 tons could be totally consumed by about 32 farms.

Feed delivery costs in base case.--Feed delivery costs are based on the fixed cost of owning or renting a delivery truck and on the variable costs of operating the delivery truck. Variable costs depend on the miles the truck must travel to deliver feed and on the amount of time it takes to travel the delivery route.

In this analysis, the delivery route has been calculated under the assumption that the 237 beef fattening farms of Moody County are evenly distributed geographically throughout the county. This means that there are about four beef fattening farms on each 9 square miles of Moody County. Therefore, the marketing territory enveloping 32 beef fattening farms would be about 72 square miles.

Moreover, it is assumed in the base case that the 32 farms nearest to the alcohol plant will be the ones buying the DWG. Thus, the delivery route mileage will be at its absolute minimum.

In Figure 2, the shaded area of Moody County represents the marketing territory for use of the DWG by the 32 farms nearest to the alcohol plant. A schedule for delivery to those farms was based on the following assumptions:

(1) A 1-ton truck would deliver the DWG.

[6]For more details concerning assumptions (such as prices of feeds other than DWG) and calculations in this section, contact the senior author of this bulletin. It should be noted that DWG could be used as a protein supplement in rations of smaller beef animals (e.g., in the 400-700 lb range), as well.

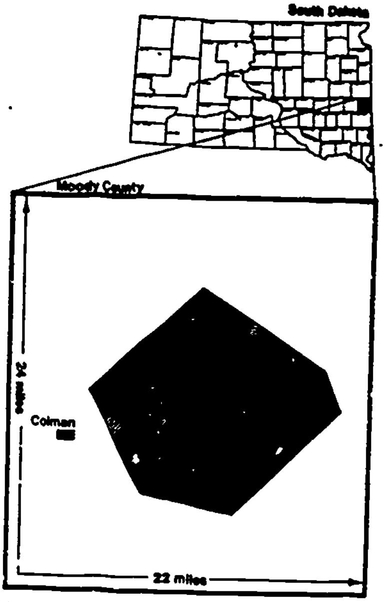


Figure 2: Marketing territory encompassing DWG delivery to the 32 beef fattening farm nearest the alcohol plant.

★ Alcohol Plant Site
▨ Area Covered by Delivery Route

(2) Because it is assumed that the DWG can be stored for only 2 weeks without spoilage, deliveries must be made to each consuming farm every 2 weeks.

(3) The truck must be weighed before each delivery to determine the amount of DWG delivered. Therefore, it would be necessary to travel to each farm, unload, and travel back to the alcohol plant for reloading and weighing before delivering to the next farm.

(4) The delivery truck would need to deliver about 1.6 tons of DWG to between two and three farms daily, on average. This delivery schedule would provide a 2-week supply of DWG to each of the 32 consuming farms every 2 weeks and would permit deliveries consistent with the production capabilities of the alcohol plant. Delivery time is estimated to average 3 hours per day, 365 days per year.

Delivering DWG to the 32 consuming farms would result in total annual delivery mileage of 9,334 miles. Adding 5% for miscellaneous travel gives a total of 9,800 miles.

Costs for DWG delivery are shown in Table 4. All of the fixed costs for the truck are applied to the cost of DWG distribution. Since the truck will be used every working day for at least 3 hours, it is unlikely that the truck could be used practically by some other commercial entity during the remainder of each day. However, the truck could be used for other miscellaneous functions around the alcohol plant. Total fixed costs for DWG delivery amount to \$.023 per gallon of alcohol produced.

Operating costs associated with DWG delivery are shown in part B of Table 4. These total \$.049 per gallon of alcohol produced. Labor costs of \$.031 per gallon account for the largest share of operating costs.

Fixed and operating costs for feed byproduct delivery combined total \$.07 per gallon of alcohol produced by the plant. This compares to costs of \$.01 to \$.04 per gallon if we simply apply 10% deductions for handling and transportation of DWG to previously shown values for use of DWG in dairy and beef rations.

<u>Feed delivery costs under other assumptions</u>.--Feed delivery costs were

Table 4. Fixed and operating costs associated with the DWG delivery truck in the base case (175,000 gallon fuel/year alcohol plant with 1,356 tons/year of DWG)

A. Fixed costs

Item	Full capital cost	Useful life (years)	Full annual amortized cost (15% interest)	Cost/gallon of alcohol delivered
1-ton truck	$14,000	10	$2,786	$.016
Vehicle license & insurance	960	1	960	.005
Tires	900	5	268	.002
Subtotals	$15,860		$4,014	$.023

B. Operating costs

Item	Cost/unit	Units/year	Annual cost	Cost/gallon of alcohol delivered
Gasoline	$1.30/gal	891 gal[1]	$1,158.30	$.007
Oil, filter, grease	$14.75/change	3 changes	44.25	.000*
Labor	$5.00/hr	1,095 hours	5,475.00	.031
Antifreeze	$15.00/change	1 change	15.00	.000*
Tune-up	$200/job	1 job	200.00	.001
Weigh payments[2]	$2.00/weigh	912.5 weighs	1,825.00	.010
Subtotals			$8,717.55	$.049
TOTALS OF A AND B =			$12,731.55	$.072 ($.07, rounded)

*The annual cost per denatured gallon of alcohol is so small that it rounds to 0 at three decimal places.

[1] 9,800 miles/year ÷ 11 miles/gallon = 891 gallons

[2] To weigh the truck carrying DWG, it is assumed that the alcohol firm could use the local grain elevator scale. An average of 2.5 weighs per day at $2/weigh times 365 days/year = $1,825/year

15

also calculated on the assumption that only every other beef fattening farm reaching out from the plant, rather than each farm closest to the plant, would utilize DWG. This alternative assumption causes the DWG marketing territory to be 144 square miles, compared to 72 square miles in the base case. Delivery mileage therefore increases from 9,800 to 14,140 miles.

The increased mileage causes operating costs for the feed delivery truck to rise from $.049 to $.063 per gallon of alcohol produced.[7] (Fixed costs associated with DWG delivery are assumed unchanged.) Total fixed and operating costs of DWG delivery thus rise from $.07 per gallon of alcohol in the base case to nearly $.09 per gallon in this alternative case.

Other research at SDSU is currently examining feed byproduct use and marketing in a more dairy-oriented county of eastern South Dakota.[8] Preliminary results indicate that feed byproduct delivery costs would come to about $.05 per gallon of alcohol.

We thus have estimates of feed byproduct delivery costs ranging from $.05 to $.09 per gallon of alcohol produced. The middle-range $.07 per gallon estimate from our base case thus seems reasonable.

Conclusions on returns from sale or use of DWG

Our conclusions on returns from sale or use of DWG are presented in Table 5.

The byproduct returns net of preservative and transportation costs range from $.07 to $.30 per gallon of fuel alcohol. They were calculated with the following formula:

Return on feed byproduct = Value of feed byproduct in livestock ration - Cost of preservative - Transportation cost

For the beef ration with transportation costs as calculated in the market territory analysis (as opposed to the 10% deduction), the calculation looks like this:

Feed byproduct return per gallon of ethanol = $.24 - .10 - .07 = $.07/gallon of ethanol

The calculations for other parts of Table 5 were carried out in the same way. In the last column, however, the transportation cost deduction was simply 10% of the feed value net of preservative cost. That was the procedure used in our previous report (Hoffman and Dobbs), in which we referred to the 10% as a discount for "handling and transportation".

Figures in Table 5 are intended to convey a general picture of possible feed byproduct returns to include in feasibility analyses of small-scale fuel alcohol plants. They are not intended to be directly used for feeding recommendations.[9] Actual feeding values in any given situation will depend on sizes and types of livestock being fed, alternative feeds available, prices of alternative

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[7] The operating cost increase is due to greater gasoline consumption and more man hours required to cover the delivery route. Manhour requirements increase to 4 hours/day, compared to 3 hours/day in the base case.

[8] This research will be reported in a Masters thesis in Economics by Daryl Brehm. The thesis is currently in draft form. In that study, dairy animals utilize the feed byproduct.

[9] A more detailed analysis of how the "bypass" protein characteristics of DWG affect feeding values might lead to higher value estimates than ours in some cases.

Table 5. Estimated returns from sale or use of DWG (175,000 gallon fuel/year alcohol plant with 1,356 tons/year of DWG)

Assumed use of DWG	Estimated returns net of preservative and transportation costs[1]	
	If transportation costs $.07/gal of alcohol[2]	If transportation costs are 10% of returns[3]
	--feed byproduct returns per gallon of alcohol produced--	
In beef rations	$.07	$.13
In dairy rations[4]	$.26	$.30

[1]Includes $12.60/ton of DWG deduction for cost of propionic acid used as preservative.

[2]Assumes that alcohol plant is located in Moody County and that feed byproduct transportation costs are $.07/gallon, whether delivered to beef or to dairy farms.

[3]The 10% deduction is in lieu of a deduction based on the calculated cost ($.07/gallon of alcohol) of feed byproduct delivery.

[4]Returns based on average of values in use in dairy heifer and dairy cow rations.

protein supplements, ration formulations, etc.

Nevertheless, Table 5 does make clear that net returns on feed byproducts could be quite low in some circumstances. Feeding DWG to some types of animals (fattening beef, in this case) could give much lower returns than feeding it to other types (particularly dairy heifers, in this case). Feeding large numbers of animals in very close proximity to the alcohol plant could increase net byproduct returns in two ways. It could conceivably reduce or eliminate the need for a feed preservative, if the feed is consumed quickly on a year-round basis. Transportation costs could also be reduced or eliminated.

Conclusions

We can pull the pieces of this analysis together by thinking in terms of the following formula:

Returns net of costs	=	Returns on ethanol	-	Costs net of byproduct credit

where:

(1)	Costs net of byproduct credit	=	Costs of producing the ethanol and feed byproduct	-	Returns on feed byproduct

and

(2)	Returns on ethanol	=	Replacement value of ethanol	-	Engine conversion cost		
		-	ery	+	Income tax credit		

(3)	Returns on feed byproduct	=	Value of feed byproduct in livestock ration	-	Cost of preservation	-	Transportation cost

(4)	Costs of producing ethanol and feed byproduct	=	Costs (before deduction of feed byproduct credits) estimated in Bulletin 686 (Hoffman and Dobbs)

General results

An overview, obtained by including our data in the above formula, is contained in Table 6. Columns 4 and 6 of that table both indicate negative "returns net of costs" for various assumptions used in the study. In other words, the type of alcohol plant analyzed appears economically in-feasible.

The costs and returns situation appears worst (-$1.03/gallon) with the baseline production cost estimate combined with the feed byproduct being fed to beef animals and transportation costs being estimated according to the routing method used in this report. It is least bleak (-$.61/gallon) when the lowest production cost estimate (from Hoffman and Dobbs) is combined with the feed byproduct being used for dairy animals and transportation costs being simply figured at 10% of the feed value (net of preservative costs). Production costs in this latter case were based on $2.00 per bushel corn, as compared to $2.50 per bushel corn in the baseline case (Hoffman and Dobbs, Table 4).

According to these findings, either returns on the alcohol fuel and the feed byproduct would need to substantially increase or costs of production would need to substantially decrease for a small-scale plant to be economically feasible with corn as the feedstock.

Some return considerations

The returns calculations in Table 6 were based on the $.30 per gallon income tax credit available in 1981 for users of 150 to 189 proof alcohol. However, it is clear that figuring the current $.375 per gallon credit on alcohol of this proof would make little overall difference in the prospects for economic feasibility. The income tax credit would have to be more than three times its 1981 level to bring even the most optimistic situation depicted in Table 6 into an economically feasible realm.

Our returns calculations in this report were all based on the assumption that the hydrous alcohol would be used on farms. However, it is sometimes possible to sell hydrous alcohol to refiners who take this product to the anhydrous stage to be marketed and used in a 10% blend with gasoline (as "gasohol," "super-unleaded gasoline," or whatever term is used). However, it is doubtful that even that possibility would at present provide sufficient fuel returns to make feasible the kind of small-scale plant we have analyzed.

In late 1982, anhydrous (200 proof) fuel alcohol was worth $1.70 per gallon in Omaha, NE. The price of anhydrous alcohol

Table 6. Returns net of costs for a small-scale alcohol plant (175,000 gallon fuel/year alcohol and 1,356 tons/year of DWG) when returns on alcohol are $.98/gallon

		Baseline cost case[2]		Low cost case[3]	
(1) When byproduct is used as indicated	(2) Returns on feed byproduct[1]	(3) Costs net of byproduct credit	(4) Returns net of costs	(5) Costs net of byproduct credit	(6) Returns net of costs
		-----dollars per gallon of alcohol produced-----			
(1) _In beef animals_					
(a) With transp. costs estimated on basis of route analysis[4]	.07	2.01	-1.03	1.82	-.84
(b) With transp. costs estimated on 10% of basis of feed value	.13	1.95	- .97	1.76	-.78
(2) _In dairy animals_					
(a) With transp. costs estimated on basis of route analysis	.26	1.82	- .84	1.63	-.65
(b) With transp. costs estimated on 10% basis of feed value[4]	.30	1.78	- .80	1.59	-.61

[1]Information taken from Table 5.

[2]Baseline case in the earlier report by Hoffman and Dobbs, where costs of production _before_ deduction of feed byproduct credit are $2.08/gallon.

[3]Low estimate in the earlier report by Hoffman and Dobbs, where costs of production _before_ deduction of feed byproduct credit are $1.89/gallon.

[4]In this base case, beef farms closest to the plant utilized the DWG.

across the country was about $.05 per gallon less than it had been a year earlier, in late 1981. Thus, let us assume that anhydrous alcohol in this region was worth about $1.75 per gallon in late 1981. Over the past year or so, 185 proof alcohol sold for about $.40-.50 per gallon less than 200 proof alcohol--when a market could be found. If we subtract $.45 from $1.75, that leaves an estimated market value of $1.30 per gallon of 185 proof alcohol. Even ignoring some transportation costs the seller may well have to bear, the prospects for plant feasibility still do not appear good. The $1.30 return is only $.32 per gallon more than that estimated as the return for alcohol used on farms near the plant. We can see in columns 4 and 6 of Table 6 that costs exceed returns by much more than that in all instances.

Eventually, if a well integrated regional system of small- and large-scale alcohol plants were to develop, the price of hydrous alcohol might substantially improve relative to the price of anhydrous. Large plants might then contract with small plants for regular supplies of hydrous alcohol, to dehydrate and market along with their self-produced alcohol. If this were to come about, it could help to improve the prospects for economic feasibility of small-scale plants. At the present time, however, the market for hydrous alcohol is not well developed in many parts of the country.

Another possibility for higher returns than those imbedded in Table 6 is in the area of feed byproduct values. Estimated returns for use in dairy heifer rations were higher than in lactating dairy cow rations. The estimate in the last two rows of column 2 in Table 6 is based on an average of the two dairy ration values. Had we used the dairy heifer ration value alone, the byproduct returns for dairy use (and associated alcohol plant returns net of costs) would have been $.07 per gallon of alcohol higher. Although that is an improvement, it is obviously far from being sufficient to result in an economically feasible plant.

On balance, it is doubtful that our returns estimates are too low for 1981 or for the present time. In fact, it could be argued in some instances that the returns estimates are too optimistic. It may be very difficult at present, for example, to convince farmers in the vicinity of an alcohol plant to make tractor conversions to utilize hydrous alcohol. It may also be difficult in some instances to get farmers to utilize the semi-wet DWG byproduct without more of a price discount than is suggested by our figures.

<u>Some cost considerations</u>

Our companion publication (Hoffman and Dobbs) on alcohol production costs contains a wide range of per gallon cost estimates. Costs from the low end of that range are reflected in column 5 of Table 6. That column reflects costs when corn is priced at $2.00 per bushel, compared to $2.50 per bushel in the baseline cost analysis case.[10] We can see, however, that even these cost estimates do not result in an economically feasible plant.

Westby and Gibbons (1982 and 1983) have carried out various experiments regarding plant design and operation to determine if costs might be reduced, examining such measures as recycling of stillage supernatant, using continuous cascade rather than batch fermentation, and varying mash starch concentration. Some of these modifications appear to hold promise for reducing costs of production. Gibbons and Westby (1983) report that one of these measures--increasing the starch concentration--could reduce costs by approximately $0.40 per gallon of alcohol.

If some of these changes in combination could reduce costs by $.50-.60 per

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[10] Sensitivity analyses were also done on costs by varying alcohol yields (per bushel of corn) and interest rates. None of those sensitivity tests yielded lower costs than are shown in Table 6, however.

gallon below those shown in our baseline case (column 3 of Table 6), one might have costs net of byproduct credits as low as roughly $1.20-1.30 per gallon in some instances. Such costs are not very likely at the present time for small-scale plants. However, if achieved, they would bring such plants much closer to economic feasibility than is indicated by the data in Table 6. Even at costs of $1.20-1.30 per gallon, returns on alcohol would need to be higher than have been estimated in our farm fuel utilization analysis for an alcohol plant to operate profitably.

Another factor that could reduce costs from an individual investor standpoint is the existence of investment tax credits. In addition to the permanent business investment tax credit of 10%, fuel alcohol plant investors are eligible under certain circumstances for a 10% energy investment tax credit (U.S. National Alcohol Fuels Commission). If one applies the full 20% credit to our capital cost figures (in Hoffman and Dobbs), a reduction of roughly $.04 per gallon is obtained. This is hardly sufficient to tip the feasibility balance, given the estimates of costs and returns presented in this report.

Some advances in technology and methods could result in lower per gallon costs than those figured in our baseline case. Changes in other assumptions could push costs higher, however. For instance, a 15% interest rate was used to amortize capital costs in the baseline case. Most private investors would demand a much higher return than 15% on money invested in risky new ventures such as fuel alcohol production. A doubling of the interest rate (to 30%) used in amortizing capital adds $.20 per gallon to costs. Other changes in assumptions (e.g., lower yields of alcohol) could further add to per unit costs.

Costs of production for small-scale alcohol plants may come down over time. At present, though, our baseline cost estimates appear reasonable.

Final observations

The analysis presented in this report indicates that small-scale fuel alcohol plants are not likely to be economically feasible at the present time. Only under a combination of rather optimistic assumptions, given recent and current technologies and price relationships, do investments in small-scale plants appear to have much chance of paying off.

Continued improvements in technologies for producing and using fuel alcohol could improve the economic prospects. The ability to efficiently produce anhydrous alcohol in small-scale plants, for example, could improve the marketability and economic value of the fuel product. Likewise, future sharp increases in the costs of gasoline and diesel fuel would increase the value of fuel alcohol as a substitute or extender, thereby enhancing the economic feasibility of alcohol plants.

It is also possible that certain feedstocks other than corn might result in lower costs per gallon of alcohol. Current research at South Dakota State University is now focusing on some of the alternative feedstock possibilities.

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ANNEX

Metric Measurement Conversions

Contained here are certain conversions of English to metric measurement units. These conversions will be of use to individuals wishing to determine and state inputs, outputs, or costs found in this report in metric units.

Symbol	When You Know	Multiply By	To Find	Symbol
MASS (WGT)				
oz	ounces	28.0	grams	g
lb	pounds	0.45	kilograms	kg
	short tons (2,000 lb)	0.9	tonnes	t
	long tons (2,240 lb)	1.01	tonnes	t
g	grams	0.035	ounce	oz
kg	kilograms	2.2	pounds	lb
t	tonnes (1,000 kg)	1.1	short tons	
t	tonnes (1,000 kg)	0.98	long tons	
VOLUME				
tsp	teaspoons	5.0	milliliters	ml
tbsp	tablespoons	15.0	milliliters	ml
fl oz	fluid ounces	30.0	milliliters	ml
c	cups	0.24	liters	l
pt	pints	0.47	liters	l
qt	quarts	0.95	liters	l
gal	gallons (U.S.)	3.8	liters	l
gal	gallons (Imp)	4.5	liters	l
ft^3	cubic feet	0.028	cubic meters	m^3
yd^3	cubic yards	0.76	cubic meters	m^3
ml	milliliters	0.03	fluid ounces	fl oz
l	liters	2.1	pints	pt
l	liters	1.06	quarts	qt
l	liters	0.26	gallons (U.S.)	gal (U.S.)
l	liters	0.22	gallons (Imp)	gal (Imp)
m^3	cubic meters	35.0	cubic feet	ft^3
m^3	cubic meters	1.3	cubic yards	yd^3

23

T. Dobbs' Attachment C

RURAL UNDERDEVELOPMENT: UNEMPLOYMENT AND UNDEREMPLOYMENT IN SOUTH DAKOTA

EMC 877

by

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May 1984

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the USDA. Delwyn Dearborn, Acting Director of CES, SDSU, Brookings. Educational programs offered without regard to age, race, color, religion, sex, handicap, or national origin. An Equal Opportunity Employer.

Rural Underdevelopment: Unemployment and Underemployment in South Dakota

One way of gauging the extent of development in an economy is through an examination of employment patterns. Significant unemployment or underemployment may indicate underdevelopment in a rural economy. In South Dakota as a whole, outright unemployment is normally low, in comparison to many other states and nations. Underemployment is a significant problem, however. This underemployment is often associated with inadequate purchasing power.

This paper was prepared to provide background for groups concerned with rural development in South Dakota. It contains an attempt to provide understanding about the nature and extent of South Dakota's unemployment and underemployment problems. This attempt consists of the following components: (1) describing what is meant by unemployment and underemployment; (2) examining where and among what groups unemployment and underemployment are found in South Dakota; and (3) exploring the causes of unemployment and underemployment in South Dakota. Much of the information contained in this paper was drawn from reports of the South Dakota Department of Labor.

A. Some basic concepts and definitions

U.S. unemployment reached 9.7% in 1982--the highest rate since 1941. The rate stood at 9.6% in 1983, and had dropped to around 8% by the early months of 1984, as recovery from the recent recession continued. South Dakota's unemployment rate has traditionally been both lower and less volatile than the U.S. rate. Because of the small size of the State's manufacturing sector, we have not been as closely tied to U.S. business cycles as have many other states. Moreover, rather than face long term unemployment or underemployment prospects, many persons have left South Dakota over the years--sometimes later showing up in other states' unemployment statistics. Nevertheless, with South Dakota's increased integration into national manufacturing and other non-agricultural sectors during the 1970's, we have seen somewhat higher unemployment rates in the State during the most recent recession. The unemployment rate in South Dakota reached 5.5% in 1982 and 5.4% in 1983. If economic recovery continues, the rate should be lower for the year 1984. We can see in Table 1 that the unemployment rates for both South Dakota and the Nation have been quite high the past few years, relative to the 1970's decade.

Unemployment rates do not tell the whole story, however. Participation in the work force has been steadily increasing, making it more difficult for the economy to provide jobs for all who want them. The 1970's saw a substantial increase in the civilian labor force participation rate--the proportion of the total civilian population which was working or seeking work. This rate increased between 1970 and 1980 from 60.4% to 63.8% on the national level and from 56.2% to 61.6% in South Dakota. Much of the increase was due to greater participation of women in the work force. In South Dakota, the number of women in the labor force increased by 47% during the 1970's, while the increase for men was only 14%. This represented an increase in the female labor force participation rate from 38% in 1970 to 49% in 1980 and a male labor force participation rate that remained approximately unchanged at 75%.

To better understand the meaning of these statistics, let us pause to relate the concepts of employment, labor force participation, and unemployment. People are condsidered by the U.S. Department of Labor to by unemployed if they are available and actively looking for work, but do not have a job. Persons are considered employed if they are doing any work at all for pay or profit; this includes all part-time and temporary work, as well as certain unpaid family workers in family-operated businesses. Building on these definitions, persons

Table 1. U.S. and South Dakota Unemployment Rates

Year	Unemployment as % of Civilian Work Force United States	South Dakota
1970	4.9	*
1971	5.9	*
1972	5.6	2.8
1973	4.9	2.6
1974	5.6	2.7
1975	8.5	3.7
1976	7.7	3.5
1977	7.1	3.2
1978	6.1	3.1
1979	5.8	3.5
1980	7.1	4.9
1981	7.6	5.1
1982	9.7	5.5
1983	9.6	5.4

Sources: Economic Report of the President, 1984; and reports of the South Dakota Department of Labor.

*Conflicting data.

employed and those unemployed combine to form the total labor force.. Persons not actively seeking work are considered not in the labor force, rather than unemployed.

As already noted, unemployment rates have started to decline from their recession-induced highs of 1982 and 1983. However, some analysts feel that the declines overstate the degree of economic improvement. They note the "discouraged worker effect". So-called "discouraged workers" are those who want employment but temporarily or permanently give up the search for work. At that point, they are no longer in the work force and, hence, are not considered unemployed in official statistics. Because of structural changes taking place in many of this nation's basic industries, many workers laid off during the recession will never be able to return to their old jobs. If they are middle-aged or beyond, retraining and/or relocation to find permanent new employment may be extremely difficult. Some of these people have become "discouraged workers". One report indicates that there are 1.5 million people in the U.S. who, out of frustration, have given up looking for jobs.

Another shortcoming of unemployment statistics is that they do not account for underemployment. Underemployment exists when persons are employed in positions which do not fully utilize their skills, training, or experience or when persons are employed in part-time positions because they cannot find a full-time job. They are considered "employed" in official statistics, even though their time or skills are underutilized. There are presently no official government statistics available on the extent of current underemployment in the United States or in South Dakota.

Individual researchers have sometimes measured underemployment using various formulae. Underemployment in one study was measured by the number of persons who worked less than 40 weeks per year divided by the total persons in the labor force who worked at all during the year, with the result expressed as a percentage. By this measure, 28% of U.S. workers and 32% of South Dakota workers were underemployed in 1969.

Another, more complex measure of underemployment that has been used in a couple of studies is referred to as the "economic utilization index"". This index is the ratio of a group's actual median income to its "warranted" earning capacity. In computation of this index, the warranted earning capacity is an expected income measure for a population with given characteristics in a local area compared with a national level population group with the same age, education, work experience, and other characteristics. The measured economic utilization index for South Dakota was 94% in 1970, indicating that workers were earning less than their "capacity", by national norms.

Before going on to examine the specifics of unemployment and underemployment problems in South Dakota, a brief overview of the State's labor force is in order. This overview is provided in Table 2. We can see that the State's labor force has grown by nearly 84,000 persons since 1970 (338,000 in 1984 compared to 254,245 in 1970). Roughly two-thirds of the labor force growth during this period was made up of women. This is due to substantial increases in the labor force participation rates of both white and non-white women in the State.

Labor force participation rates are highest among white males (79.9%). Nonwhite males (59.8%), white females (54.7%), and nonwhite females (43.9%) follow, in that order. White males thus constitute slightly more than one-half (55%) of the South Dakota labor force. Nonwhite males and females, combined, constitute 5.3% of the labor force, although they make up 6.7% of the adult (16 years and older) population. Most persons in the nonwhite category in South Dakota are Native Americans. Native Americans constituted 6.5% of South Dakota's 1980 total population of 690,768.

Table 2. Composition of the South Dakota Labor Force

Population Groups	1970 Population	1970 No. in Labor Force	1970 Labor Force Participation	1984* Population	1984* No. in Labor Force	1984* Labor Force Participation
(16 Yrs and Older)						
All Persons	452,090	254,245	56.2%	512,736	338,000	79.9%
White Males	212,368	161,052	75.8%	232,837	185,954	79.9%
White Females	221,711	85,197	38.4%	245,350	134,256	54.7%
Nonwhite Males	8,709	4,860	55.8%	16,493	9,871	59.8%
Nonwhite Females	9,302	3,136	33.7%	18,056	6,919	43.9%

Source: South Dakota Annual Planning Report No. 13, June 1983, by South Dakota Department of Labor.

*Estimated.

B. <u>The demography and geography of unemployment and underemployment in South Dakota</u>

There are several ways to look at unemployment and underemployment to understand where and among whom the problem is most severe in South Dakota. The ways we will look at the problem here are by geography, race, sex, and age.

Geographically, statistics indicate that five South Dakota counties had unemployment rates greater than 10% in 1982, compared to the statewide average that year of 5.5%. Those counties were Buffalo (19.1%), Corson (12.2%), Dewey (11%), Todd (13.9%), and Shannon (15.6%). All five have substantial Native American populations residing in them. Counties encompassing the Standing Rock, Cheyenne River, Pine Ridge, and Rosebud Reservations had an average unemployment rate of 11.3% in 1982. In those same counties, 36% of the persons working were employed only part-time (less than 40 weeks per year) in 1969, compared to 32% for all of South Dakota. On the other hand, the "economic utilization index of underemployment for those counties was 93%, quite close to the statewide average of 94%. What this says is that the incomes of labor force groups in those counties is roughly equivalent to groups in other South Dakota counties with similar age, educational attainment, work experience, employment status, labor force status, and occupational structures. However, as previously indicated, a measured index of less than 100% implies that workers in South Dakota as a whole made less than their "earning capacity" in 1970.

Statistics categorized by race provide further detail for the picture just drawn. Of Native Americans in the South Dakota labor force in 1980, 20% were unemployed, compared to 4% for white persons. The unemployment rate for nonwhite males is expected to be more than 40% in 1984 (Table 3). In other words, of 16,493 nonwhite adult males, 9,871 of whom are available for and seeking work

Table 3. Expected* 1984 Unemployment Rates in South Dakota: by Race, Age, and Sex

Total Unemployed (16 Yrs and Older)	Unemployed	Rate of Unemployment
All Persons	18,000	5.3%
<u>White Males</u>	6,802	3.7%
16-17	974	15.5
18-19	701	9.9
20-24	1,724	7.3
25-34	1,692	3.3
35-44	575	1.7
45-64	1,010	1.9
65 Yrs & Over	126	1.2
<u>White Females</u>	5,750	4.3%
16-17	918	16.9
18-19	682	11.3
20-24	1,347	7.0
25-34	1,268	3.4
35-44	748	2.8
45-64	709	2.1
65 Yrs & Over	78	1.3
<u>Nonwhite Males</u>	4,079	41.3%
16-17	131	28.3
18-19	263	33.3
20-24	957	51.8
25-34	1,769	50.9
35-44	589	35.9
45-64	338	21.8
65 Yrs & Over	32	29.9
<u>Nonwhite Females</u>	1,369	17.3%
16-17	175	33.6
18-19	166	17.6
20-24	384	29.4
25-34	237	11.2
35-44	196	13.0
45-64	208	10.9
65 Yrs & Over	3	2.3

Source: <u>South Dakota Annual Planning Report No. 13</u>, June 1983, by South Dakota Department of Labor.

*Rates estimated in advance of 1984.

(Table 2), 4,079 are expected to be unemployed during 1984. Furthermore, if the nonwhite male labor force participation rate (presently 59.8%) were as high as the rate for white males (79.9%), another 3,307 nonwhite males would be in the labor force. If we add those 3,307 nonworking men to the 4,079 unemployed nonwhite men, the total is 7,386--nearly one-half of the adult nonwhite male population in South Dakota. This constitutes a major employment problem for the nonwhite, primarily Native American, population in South Dakota!

Lower labor force participation rates for women than for men have already been noted (Table 2). However, female labor force participation rates have gained substantially on the rates for males over the past 10 to 15 years. Women have joined the labor force in increased numbers for many reasons. Financial necessity is obviously one of the reasons. Double-digit inflation in the 1970's induced many women to work in order to help maintain or improve their family living standards. Higher divorce rates have resulted in more female headed families. Moreover, as large numbers of people born in the baby boom 1950's entered the work force, competition for jobs held wages down, causing more young families to rely on two incomes. In addition to these and other financial reasons, many women began in the late 1960's and the 1970's to seek employment for reasons of personal fulfillment and economic independence. The result has been a substantially expanded female labor force in South Dakota.

Although there is still a smaller proportion of women than there is of men in the South Dakota labor force, unemployment rates for women show a mixed picture. Overall unemployment rates for the two groups were quite similar in 1980--5.1% for men and 4.6% for women. In 1984, they are expected to be about 3.7% for white men and 4.3% for white women (Table 3). For nonwhites, however, the unemployment rates are substantially lower for women than for men. They were 23.4% for Native American men and 16.6% for Native American women in 1980.

in 1984, they are expected to be 41.3% and 17.3% for nonwhite men and women, respectively. What these statistics tell us is that fewer nonwhite women than nonwhite men are unsuccessfully seeking work. However, if we combine labor force participation and unemployment information, we see that roughly the same proportion of nonwhite adult men as women are actually employed--around 35%.

Unemployment rates by age group are also shown in Table 3. We can see that expected 1984 unemployment rates are higher in all nonwhite age-sex categories than in the corresponding white categories. Unemployment rates are particularly high among nonwhite men in their twenties and thirties.

Having viewed the extent of unemployment and underemployment in South Dakota, we turn in the next section to causes.

C. Causes of unemployment and underemployment

South Dakota's unemployment and underemployment problems result from both inadequate economic opportunities and, in some cases, inadequate skills and training. Employment opportunities depend very much on the structure of a state's economy. Let us therefore look at that structure in South Dakota.

South Dakota is much more dependent on agriculture than are many other states. Earnings received directly from farming and ranching constitute 15-20% of total earnings in South Dakota, and a significant additional portion comes indirectly from agriculture through agri-business firms and other retail businesses selling to farm and ranch families. Approximately 13% of the State's employment is in farming and ranching. In contrast to the Nation's economy, in which more than 20% of the work force was employed in manufacturing in 1980, only around 10% of South Dakota's employment was in that sector. Thus, we have long had fewer industrial employment opportunities and been more dependent on agriculture than many other states.

This heavy agricultural dependence has contributed greatly to the limited and low-wage employment opportunities. Farm numbers in the State have declined continuously since the mid-1930's--from 83,303 in 1935 to 37,147 in 1982. Farm and ranch employment made up 45% of the State's employment in 1940, but makes up less than 15% at present. The farm and employment number declines represent a major exodus of people over the past 50 years. With very limited off-farm employment opportunities in South Dakota until the 1970's, people flowed to cities in other states. Thus, the large supply of labor--coming from South Dakota farms and ranches--coupled with limited local demand for that labor led to relativley low wages.

Off-farm employment opportunities did improve during the 1970's in South Dakota. Industrial firms were drawn to South Dakota by several factors-- including low wages and workman's compensation costs, improved interstate highway transportation, and low taxes. Between 1965 and 1979 (just prior to the economic recession of the early 1980's), non-agricultural wage and salary employment in South Dakota rose by 55%. Three sectors accounted for more than two-thirds of the non-agricultural employment growth during this period. In order of importance, they were the following: (1) wholesale and retail trade; (2) services; and (3) manufacturing (including processing).

There were about 310,000 persons employed in South Dakota in 1982, of which approximately 40,000 were in farm and ranch employment, 230,000 were in non-agricultural wage and salary employment, and the remainder were self-employed or in other miscellaneous categories. Wholesale and retail trade made up 27% and services made up 23% of the non-agricultural wage and salary employment (Table 4). Both of these have traditionally been relatively low-wage sectors. Manufacturing experienced major growth in South Dakota during the 1965-79 period, but was only 11% of non-agricultural and salary employment in 1982.

Table 4. Non-Agriculture Wage and Salary Employment in South Dakota

Industrial Category of Employment	Year 1965 Employment as Percent of Total	1982 Employment as Percent of Total
Manufacturing	8.7	10.9
Durable Goods	2.5	5.3
Non-Durable Goods	6.2	5.6
Non-Manufacturing	91.3	89.1
Mining	1.6	1.0
Contract Construction	5.6	3.4
Transportation and Public Utilities	6.5	5.4
Wholesale and Retail Trade	26.7	26.9
Finance, Insurance, and Real Estate	4.5	5.1
Services	16.3	22.7
Government	30.2	24.6
Total Non-Ag Wage and Salary Employment	100.0%	100.0%

Source: Derived from data in reports of the South Dakota Department of Labor.

Except for meat processing, South Dakota's manufacturing sector is largley non-unionized. Though South Dakota manufacturing wages tend to be much lower than in the eastern U.S. and the industrialized Upper Midwest, they are frequently higher than in other available sources of South Dakota emp.oyment. Consequently, outmigration from South Dakota slowed during the 1970's in part because of newly available manufacturing employment opportunities. Recent growth in financial services employment (part of the finance, insurance, and real estate sector in Table 5) has also permitted more people to remain within the State.

In attempts to achieve acceptable family income levels, many families combine farm and off-farm income. Off-farm income represented 25-30% of net income earned by South Dakota farm families in the late 1970's. Many farm wives took jobs in the State's expanding manufacturing sector during the 1970's. Some small, part-time farms, of course, are not the prime source of current income at all; rather, they provide a rural residence, livestock activities for ildren, and an opportunity for the family to build equity in land.

Not specifically mentioned thus far are the severe impacts declining farm numbers have had on small towns in South Dakota. Many South Dakota towns have historically depended on the trade of farm families for their economic livelihood. As farm numbers have declined, small businesses have suffered and many have ceased to exist. Consequently, except where replacement manufacturing industries have emerged, employment opportunities in South Dakota's small towns have been meager.

Employment opportunities, or demands for labor, are one side of the equation. The other side, which now needs to be discussed, is the quality of labor supplies in South Dakota. South Dakotans have a well-deserved "willingness-to-work" reputation. But, are some of the unemployment and

Table 5. South Dakota's 1983 Annual Average Nonagricultural Wage and Salary Employment uy Industry

	1983	1982	Percentage Change
	(1,C00)	(1,000)	
Total	233.0	230.2	1.2
Mining	2.6	2.3	13.0
Construction	8.3	8.2	1.2
Manufacturing	25.7	24.8	3.6
Durable Goods	13.1	12.2	7.4
Fabricated Metals & Machinery	8.3	7.8	6.4
Nondurable Goods	12.6	12.5	0.8
Food & Kindred Products	7.7	7.9	-2.5
Paper, Printing & Publishing	2.6	2.5	4.0
Transportation and Public Utilities	12.3	12.5	-1.6
Transportation	6.9	6.9	0.0
Communication & Public Utilities	5.4	5.6	-3.6
Wholesale and Retail Trade	61.6	61.9	-0.5
Wholesale Trade	16.2	16.4	-1.3
Durable Goods	7.1	7.4	-4.1
Nondurable Goods	9.1	9.1	0.0
Retail Trade	45.4	45.5	-0.2
Finance, Insurance and Real Estate	12.4	11.8	5.1
Services	53.3	52.0	2.5
Hotels, Amuse., Pers. & Business	14.0	13.5	3.7
Medical and Health	22.1	21.6	2.3
Educational, Membership & Social	14.3	14.0	2.1
Government	56.9	56.6	0.5
Federal	10.2	10.2	0.0
State	16.0	15.8	1.3
State Education	7.5	7.4	1.4
Local	30.7	30.7	0.0
Local Education	17.2	17.2	0.0

Source: "South Dakota Labor Bulletin for December 1983", January 1984, by South Dakota Department of Labor.

low-wage problems perhaps due in part to lack of education, skills, or other work-related qualities?

The education level of South Dakota's work force has been steadily rising. More than three-fourths of the employed persons in South Dakota have high school diplomas and ever increasing numbers are college educated. Many of those suffering most from unemployment have low education levels, however. More than 40% of the 11,460 "economically disadvantaged" persons who registered in fiscal year 1982 with the South Dakota Job Service did not have a high school diploma. In today's economy, this lack of formal education can be a severe limitation to employment access.

Lack of the "right" education or skills can also be a problem, though the extent of this problem is difficult to know and document. However, it seems clear that an ever more technically sophisticated economy is going to require vocationally and college educated employees who are well grounded in the sciences. Whether our youth seek employment within or outside the State, a strong educational base is going to be essential.

Location can also be an employment handicap for some in South Dakota. More than half of the 11,460 economically disadvantaged Job Service applicants mentioned above were rural residents. Some of these rural areas, particularly in western South Dakota, are long distances from towns of any substantial size. Commuting to jobs is infeasible in many such circumstances. For those individuals unable to move because of economic, family, or other reasons, job access is greatly restricted.

It has been estimated (by the South Dakota Department of Labor) that there are perhaps 120,000 economically disadvantaged persons in South Dakota. Of these persons, nearly 70,000 are in the potential working age span of 14 through 64 years. Many persons within this group may need special training or other employment services. These 70,000 constitute about 16% of the total South Dakota population in that 14-64 years age category. Twenty-five thousand of these economically disadvantaged persons are from 22 to 44 years of age. It is vitally important that people in this age span, with potentially their best working years yet ahead of the, not be economically bypassed for lack of employment skills and services.

T. Dobbs' Attachment D

COOPERATIVE EXTENSION PROGRAM ON
"SMALL TOWN ECONOMIC DEVELOPMENT OPTIONS"*

Purposes

To inform South Dakota communities of economic trends and policies affecting their future.

To help communities gain perspective on economic development options available to them.

To encourage community self-appraisals and appropriate development initiatives by local citizens and leaders.

Thereby

To foster income and employment growth in rural areas.

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POSSIBLE COMPONENTS OF PROGRAM ON
"SMALL TOWN ECONOMIC DEVELOPMENT OPTIONS"**

1. Current state of the national economy and relevant ag and non-ag policies.

2. Trends in the state and local economy.

3. Economic development options:

   a. Expansion of agricultural production

   b. Increased agricultural processing

   c. Increased manufacturing

   d. Expansion of other industries

   e. Expansion of retail trade

   f. General community improvement

4. The local development process

   a. Film on "What Do You Want?"

   b. Organizing for action

   c. Possible initiatives

**Depending on content, program may involve both Extension Rural Development Economist (Thomas Dobbs) and Extension Agricultural & Public Policy Economist (Mark Edelman).

Senator ABDNOR. Thank you, I appreciate that. Clarence Skye.

STATEMENT OF CLARENCE W. SKYE, EXECUTIVE DIRECTOR, UNITED SIOUX TRIBES

Mr. SKYE. I am glad to be here Senator, Honorable Senator Abdnor, and your Joint Economic Committee, and ladies and gentlemen. My name is Clarence Skye and I am the executive director of the United Sioux Tribes of South Dakota which is made up of 11 Sioux Tribes in North Dakota, South Dakota, and Nebraska. One of the things that Indian people do not receive is a check every month. That is a real myth. I am, as Ben Reifel used to say, our former Congressman of the State of South Dakota, he would say I am part Indian, I am Irish, and I am also German, but I am also part Piorian Indian from Oklahoma.

The Indians through the years had to get organized, really organized in order to be able to cope with the situations that they have on the reservations, in a very depressed area. We have always been without to a lot of degrees, but we have been able to function. It is very important to realize that we have had to work to be able to develop as farmers and ranchers. We have about 560 Indian cattlemen and farmers out in our areas that are opposed to foreclosures by banks and FmHA and PCA. We are opposed to that. We think that there can be something done other than coming in and foreclosing and taking the person's livelihood.

I am very sympathetic to the gentleman and the people that have testified before me. We do have a depressed economy in South Dakota, but I think that in many ways we do support the urban cities and communities in the east and around us, that South Dakota is the heart of the Nation.

I also have two gentlemen here with me, Senator, chairman of the lower Brule Sioux Tribe Mike Jandreau, Mike will you stand up. Mike is head of the first project in South Dakota which is called the Grass Rope Irrigation Project which really has done some development with your help Senator and we appreciate that. We also have another gentleman named Ruben McClosky who has a Polock name but he is Indian. Ruben is from Rosebud. We also need to do more work in South Dakota for the development of our people and the Indians and general populace. We need to get together.

We need to work together to really turn the economic situation around. I don't think we are all saying, hey, government bail us out, but I think the Government needs to bring that foreign market to us so that we can deal with it at our level. There needs to be much, there is probably too much Government interference and through a lot of activities that cause us problems in the market on the reservations and in the whole State.

I have talked to an individual, he was a farmer in Aberdeen, and asked him how he was doing and he said he was having a tough time, house burned down, they were coming in to foreclose, a lot of things were happening to him. I think it is important that we also struggle that we need to get the big city Congressmen and the big city Senators to take more of a look at our rural economy, because in reality we have got water, we had the land base, but we don't have the financial resources to develop it. So we need a lot of outside help.

I think the people in South Dakota are great people and good people, and I think if we turn this whole thing around by becoming face to face with each other, with the growing concerns that are happening around this country. Senator, thank you very much and I want to give you the rest of my prepared statement.

[The prepared statement of Mr. Skye follows:]

Prepared Statement of Clarence W. Skye

ECONOMIC OUTLOOK FOR SOUTH DAKOTA

This statement is presented on behalf of the Sioux Tribes by Clarence W. Skye, Executive Director of United Sioux Tribes. The emphasis is directed at the immediate depressed agriculture situation as it relates to Indian ranchers and the long term economic problems of reservations.

I feel particularly qualified to comment on reservation economies because of our involvement with the elected leadership of the reservations and constant communication with tribal chairmen. In addition, for the past 18 months, we have been actively involved in explaining the Indian Finance Act to Indian groups and packaging individual loan applications. It is my hope that you will get additional testimony from tribal leaders on the deplorable reservation conditions.

There is no doubt that reservation economies are at their lowest in several decades because of federal cut backs in various programs and elimination of others. Equally, and without doubt, is the jeopardy of the agriculture base, particularly Indian cattlemen, which are the principle private sector mainstay of the reservation economy.

It needs to be emphasized that the Indian rancher on the reservation is confronted with all of the problems of agriculture plus additional problems unique to ranching on the reservation. It needs to be emphasized also that Indians are ranchers, not farmers, and as a result have not benefited from commodity price supports, Payment in Kind, farm storage or similar programs that have helped many farmers/ranchers throughout the state. Indian ranchers are further handicapped by having only permit or leasehold interests in their ranch with equity limited to livestock and machinery. Those who have had some trust lands now find they are destined to loose these lands by foreclosure if their cattle operation can not be sustained. Compounding the Indian ranchers problem is the lack of credit from the private sector due to jurisdiction issues all of which limit the ranchers ability to modify, limit or restructure his operation.

The reservations are the epitome of the problems of rural america compounded by the fact that a self sustaining economy was never attained on the reservations. The "recovery" we hear so much about has not happened in Indian country and the prospects of fostering a recovery seem even more remote.

Reservations have nothing to look to as positive indications of economic relief. When South Dakota brags about the lowest unemployment in the nation, reservations, in South Dakota, experience 10 times the national unemployment rate. Because reservations have never had an economic base they are particularly devastated by cut backs in the government social programs of housing, elderly assistance, job opportunity and etc. The reservations are experiencing a depression unlike anything known in the past 50 years and while the President talks of recovery there is no evidence to support his statement in Indian country.

We are aware that we have significant amounts of natural resources, largely undeveloped through no fault of ours, and we have the potential of greatly improving our economy while at the same time assisting in the recovery of the state and nation.

RECOMMENDATIONS

First, let us try to save the one, and ~~most~~ generally the only, Indian enterprise on the reservation by providing a low interest Agriculture loan program to see them through these tough times. A well structured credit program could save the land, machinery and cattle of Indian operators at little expense to the taxpayer.

Second; a conscientious effort on the part of government to develop the reservation resources for the benefit of Indian people and in turn benefiting the state and nation.

In the past, economic development attempts have been misguided efforts to develop small business or services on the reservations. The big projects, like the Missouri River Dams, were built for the government by the government, to a major extent on Indian lands, for the benefit of government. Little or no economic benefits have accrued to the reservations.

The tribes have land, minerals and water; resources envied by the growing sun belt states. The challenge is to develop these resources in South Dakota on the reservations with the principle benefits of investment and jobs remaining and exporting the finished product.

A recent report of the "Presidential Commission on Indian Reservation Economies" went into great detail in explaining the barriers to economic development on reservations. It also made a host of recommendations, nearly all of which require legislative action or top level changes in government regulations to accomplish. This report, like so many before, does not provide for input from the Tribes or a course of action to bring about the recommendations.

We feel studies and reports have been used historically to impede, delay or for ever deny progress.

SYNOPSIS

I am very happy to have the opportunity to address the joint economic committee and hope to relate to you in a few words the seriousness of the depression in Indian country.

Without dwelling on the overall economic problems of the reservations and the Indian people in this short presentation we would like to request specific and emergency action to save the Indian Agriculture Industry.

It is our belief that a low interest loan program, subsidy if you wish, be created to salvage the Indian rancher in 1985. We are experiencing bankruptcies, foreclosures and liguidations at an alarming rate and indications are many more will be gone in 1985.

In our opinion the program should provide loan money at not more than 5% interest and be flexible to include refinancing of existing loans, buy down on principal and restructuring of ranch operations.

Over the past several decades the government has encouraged the Indians to use their agriculture resources, develop private enterprise and financed their establishment in agriculture. To back away and let all of this time and money go to waste without trying to salvage the industry is incomprehensible.

As for long Range prospects for economic development on reservations we support the "Economic Development Zones" legislation introduced in the last legislative session but never enacted. It is our understanding this legislation would concentrate the efforts of Government and private industry in specific areas of most need including Indian Reservations. We feel it will take a concentrated effort to overcome the historical absence of of an economic base or structure on the reservations.

Senator ABDNOR. Thank you, Clarence, we will certainly make it part of the record. We appreciate you coming all the way down for this. It will be very helpful. I want to say we agree with you on getting the message to those city Congressmen. So we don't lose sight of this, I want to again say this is just the start of a year and a half of meetings all over the country, but more specially probably in Washington. There has never been anything like this carried on before. We do a little crying back home about the big city Congressmen not paying any attention but this is the first time the attempt has been made to collect some hard evidence of the way things really are.

We know that the farmers and their problems is the biggest single concern, but we want to cover the whole package because they keep coming at us with these city programs like adding a cent to the gas tax and taking that for mass transit while our story never really gets told.

At least this time we are doing it in a committee form with a bona fide transcript of the record which we have never had before. And this is just the kick-off. That is what we are trying to do here today, we are having a full fledge agriculture one next Wednesday. I know I have been bearing off on the other areas of the economy, but nothing is more important than agriculture. I want this to show in the first hearing of this mass project in an attempt to tell the rest of the country, and the cities, and particularly the Members of Congress and some of those bureaucrats that administer these programs that by golly they better take a look at rural America because we count too.

Mr. SKYE. Thank you, Senator.

Senator ABDNOR. Has Denny Peterson come in yet? Tim Giago, is he here yet? Leon Reiners with the pork producers, I think he is State Chairman of the South Dakota Pork Council. One of your home town fellows and we are happy to hear from him. I saw him in Washington just last week.

STATEMENT OF LEON REINERS

Mr. REINERS. Thank you, Senator Abdnor, for giving me a few minutes on your schedule, I do not have a prepared statement so probably I should say what I am going to say is on my own behalf and my own feelings as a farmer from Hutchinson County. I really appreciated some of the remarks that that first lady had up here this afternoon, but when Senator Abdnor talked about confidence and things like that in a rural community, it is really obvious when a lady that has probably given all of her life for producing food gets up and says I am just a farm woman, I think that says a lot for our confidence, and that is one thing we need to turn around somehow or else stay on the positive side of it. We probably don't hear many teachers saying I am just a teacher or probably many people that put machines on a car that say I am just a machinist. We need to have the confidence, we need to know we are producers and we are not just farmers.

I don't want to lecture, but I guess it bothers me because somebody told me that once, they corrected me when I said I am just a farmer. They said we don't want to look at it like that. I guess another thing I see is we have been asked to get unified as farmers, we hear so many voices coming out of farmers, I agree with that and yet at the same time I hear a lot of different things coming out of lending agencies. I was at a meeting this winter once, last fall in fact it was, that one of the segments of, a person in one of the segments of the lending agencies says maybe what we all need to do is join another farm organization and that will solve all our problems. I guess that took me back a little bit. I thought that was a poor attitude.

I think commodity organizations are great for help from within, but when you need help from without, I mean it wasn't the farmers' fault or commodity organizations that put embargoes on and things like this, decided they were going to control inflation with interest. That is where we need help from without. One other thing, we have talked a lot about some of the things we need to change or some of the new laws we need. One thing as a pork producer I see we don't need any new laws, we know there is a lot of Canadian hogs being imported in the United States, the last figures I had was 1,322,000 head. That is a 195 percent increase in the last 12 months.

Last November a person in the lending agency told me that is not a big deal, you are making too much of a big deal out of it. That was in November when we had a 150 percent increase. I didn't say anything to him then, but I guess my question is when is it going to be a big deal, is it going to take another 100 or 200 percent issue. We have the laws on the books to correct these issues. There is a thing as duties, we have asked for that and the Commerce Department needs to rule whether Canada is actually subsidizing Canadian producers.

I know that Senator Dole has asked for a real timely and immediate response from the Commerce Department, I would hope and recommend that you join up with the other Senators in asking for this timely thing and let's get on with it. If it is a problem, let's put the duties on and if the Canadian farmers are the same as we are, then we will compete with them, but that is one thing I think we don't need any more new laws, we just need to take care and go down the ropes with the laws that we have.

One other problem I see coming in to our community is there is a lot of money around. We all know that, and I think we can see that when producers are getting told I will give you $8 a head or I will give you 6, 7 cents a day if I can fill up your swine facility. This farmer is probably down and out, can't get money from a bank and yet there are men around, those facilities will be filled, that is probably free enterprise, but it bothers me a little bit. If the average person cannot make a little profit in this farming community, the structure of agriculture as we know it today is going to be drastic, it will be totally different in the next several years. That is a few things I would like to add. There are a lot of laws on the books, and I think we need to just use them. Thank you.

Senator ABDNOR. Thank you Leon, that was an excellent presentation and I will do anything I can. I didn't know that Senator Dole had put this little group together. He works through the Finance Committee and I would bet that the original group that is working on it are all from the Finance Committee, but they are going to have somebody from the Appropriations Committee to meet too. This is one of the biggest obstacles we are having. All the problems the farmers are having to put up with deal with this kind of situation. Hogs that get subsidized $5 or $6 are being shoved down in this country—it is crazy. I don't know how we let these things happen, but we will do everything we can, and I will sure keep working on it. The next witness is LeRoy Erickson. LeRoy? How about Junior Meiers? From Avon? Lyle Eichacker.

STATEMENT OF LYLE EICHACKER

Mr. EICHACKER. If that is all I ever had done wrong, Senator Abdnor, I would welcome it. The first thing I would like to comment on is we have heard some nasty things said about FmHA and I am a farm borrower, I don't think all FmHA's are bad. I think a lot of our personnel working for FmHA are trying to help the farmers. I want to say that for one thing.

Second, I think what the farmer needs is a st of production for his commodity. Simple as that. Give the farmer the cost of his production and he will be able to survive. Third, I would like to bring out a point that the dairyman over here had. We had a dairy program that was initiated and it is going into its last entity, and the dairy farmers have paid their own program plus the Government has $1.6 million surplus off the program.

The farmers have paid in over that above what the Government had to pay back to the farmers, basically because enough farmers didn't go into the program, but I mean the assessment of 50 cents a $1 was in excess of what the dairy program was. I think if the dairy situation is going to continue and they are going to lower the support price by 50 cents or $1, let's not throw it away, let's put it in some kind of a program where the dairy farmers can work a program with themselves, a self-help program. I don't know his program, I have never seen it before, but I would go along with his line of thought.

Another thing that is happening, is, and I, it goes back to FmHA, when a farmer is going to lose his property, the Government takes it over and this lending agency comes to our entity of government which I am a county commissioner and asks us to abate the taxes on this property. By law we have to abate the taxes. But yet the Government turns around in instances that have happened in our county and other counties around have rented this land out to other farmers, but yet the Federal Government does not pay any taxes back to the local entity of government. I think this is unfair, I think the Federal Government, if they are going to rent the land out should at least bear their share of the responsibility for the tax load.

Senator ABDNOR. In some places they do, you mean land—what kind of land is it?

Mr. EICHACKER. This is land taken over through FmHA loans where the Government has taken over the land, I am not talking Federal lands for wildlife, Senator Abdnor, I am talking about farms the Federal Government has taken over.

Senator ABDNOR. Is there quite a bit of that?

Mr. EICHACKER. At the present time we have less than 700 acres in our county, but in talking to borrowers that have had FmHA loans they are saying I am going to try to get out from under this thing and I am going to walk away from it.

Senator ABDNOR. This has been on my mind, and I have visited with a few people about it. We hope and pray that that doesn't happen, but if it does happen and it could happen, we have to be very careful that the land is not allowed to even be sold for 2 years. It will wreck land prices for other people all over this country like we have never seen. We have a plunging of land prices now, but if these guys take the land and peddle it off for any price, then other people's land will go down and that is a serious situation. Let's hope it doesn't happen, but if it does happen, some consideration has to be given to this, otherwise land prices, I think, would be really seriously impaired and we would see another big drop in our land value.

Mr. EICHACKER. There are people out here, Senator Abdnor, and you know it yourself, that have money set aside to when land values get to a certain point they are going to buy it and we are going to be not owners of the land, but renters of the land. Thank you, Senator Abdnor.

Senator ABDNOR. Thank you. Is that a good dairy program we have had in effect for the last couple of years?

Mr. EICHACKER. I think so, Senator Abdnor. The only thing I would like to have seen done different than what was done is that the farmer that went in to the program should have been given some incentive, and I would have said the incentive should have been that he would not have been required to pay the 50 cents a hundred into the pool. In other words, for going into the program he would have gotten 50 cents better than the others.

Senator ABDNOR. You force every one to pay it.

Mr. EICHACKER. This program forces every one to pay, right.

Senator ABDNOR. That is why we have surplus dollars. I understand there are so many thousands of heads of dairy cattle ready to go in after this program drops that we will be in worse shape than we were before, is that right?

Mr. EICHACKER. I am one of them, Senator Abdnor. I have 40 heifers out there that will freshen after the first of April, I won't deny that.

Senator ABDNOR. Thank you. Ray Ehrman.

STATEMENT OF RAY EHRMAN

Mr. EHRMAN. Ray Ehrman from Freeman, and just an interested citizen. I am going to read just portions of two pamphlets that really were designed for farmers to read and study, but there are sections in here that apply to Government, and I would like to just read those portions. Basically the idea is it indicates what the writer felt the purpose of Government should be. The Government obviously has not always been obvious in its motives. What is tragic—let me ask you this question too, you are ready to take some criticism as a government, I don't mean to be negative in the sense of destruction or something like this, I would like to help the situation a little bit.

Senator ABDNOR. Thank heavens in this country you can still say what you want to about the Government.

Mr. EHRMAN. The Government obviously has had unknown motives. What is tragic about Government involvement in applying force to knock down farm prices is that it has resulted in a debt economy where everybody sooner or later is going to pay dearly for their temporary cheap food that they may have had. They pay for it through inflation. Inflation directly related to dollar devaluation can be calculated ahead of time by finding the amount of disparity payment to any segment of the economy. The bigger and more important that segment, the greater the force that makes for inflation. If you want to stop inflation, you have to stop disparity.

This is supposed to be one of the responsibilities of Government, to act like a referee between segments of the economy so that one is not adversely dominant over another segment, but as it is Government has used farm programs to control farmers and prices. It has used import and export laws against producers. Embargoes slowed outward flow of products, cutting off better markets, import gates were widened from time to time to allow enough outside product to come in to our country to maintain a manageable inventory.

To top it all off, Government has managed a careful programming of farmers to concentrate on efficiency and bigness as the sole method of solving the income price problem. There is another section here. This is in regards to the various methods that we have tried to use to gain price on the farm. One of the approaches we have used is legislation. Legislation is basically asking Government to help price. The idea behind the legislation approach is to get the Government to pass laws that make price easier to get such as loans to finance in storage, floor price, for floor loan prices, and so on.

Farmers have revived their support for this approach because other pricing approaches seemingly have failed. What farmers are saying is Government involvement is better than what we got now, since the Government is so involved in anything anyway, they might as well be involved right. This approach to influence price is possible if and when the Government decides to do it. In other words I feel any day the Government wants to do it, they can get a 100 percent of parity out here and just like other countries have done. Explaining—this will explain why some governments have done it and why maybe our Government has not.

A government support program has been in existence for years in our country, but generally just to create survival income and not to cover all costs of production, plus some profit that is considered reasonable in businesss today. Such as like Government has done for utilities, where profit is guaranteed. Government can price farm production if they want to, if they want to do what is right. This is generally a fact in those countries where food has to be imported anyway. Since nothing of food is produced in those countries, legislating profitable prices tends to stabilize and maximize production. Thus reducing the need to import.

Whenever there is a possibility of abundant production, and that is the case in our country, controls and quotas are naturally needed so that there is a balanced production of all needed products. The idea is not to produce just for the sake of producing, and having fun at it, but to produce what the market needs and what it is willing to utilize. Usually where there are honest laws, it protects dumping and undercutting prices by taxes added onto the imported product to match or surpass the domestic price.

In other words, some of the countries like European countries will tax any product coming in to match their level. See, it is their way of protecting their own people, and to me that is a possibility and a good thing to prevent this type of imbalancing. In many cases the Government handles the foreign buying so it can monitor the inventory supply. You never want to let the country run out of food so you want to have enough food on hand.

Senator ABDNOR. Let me ask you, it is up to you, but for the record, and this will be in the record, it would be awfully nice if we had the author of that so we know if somebody reads the record?

Mr. EHRMAN. The author is me, the author is I. Let me include some key areas where the Government could be involved. One is if you want to talk about any further loans, the loans could be directed toward a group financing of the inventory rather than individual farmers. You can pay the farmers, by the group inventory financing approach. Second, another area where Government should be involved is not to depress prices in any shape or form until prices are beyond the 100 to 110 percent of parity. Under law that is where you should be depressing prices, not any sooner. Then a concluding statement. If you want to balance your budget in Washington, you better let people have a little money out here first so they can make a little money and then pay taxes, and then you will balance your budget. Thank you.

Senator ABDNOR. Often tariffs and trades get to be a big discussion. I found out the hard way with China. We had a big wheat sale to China a year or so ago and our Government put another levy on China textiles coming in, causing China to immediately cancel our sale of grain. China is the biggest importer of our grain of any country in the world, and there are a lot of countries with grain to sell. It isn't quite like it used to be.

These are the problems that you have got to toss back and forth. In addition to that, there are some cases when you know some changes ought to be made. Some of these agencies you have to go through like we are doing with the hog imports now, or beef imports, we have an awful time trying to get that done. I don't know whether it is because they are pro consumer or what the problem is, but it is the way we have got it set up. We are very much aware that trade and trade barriers are certainly one of the biggest problems along the good Farm Program that we have to deal with. Ron Triebwasser. We are getting near the end, if anyone wants their name added to the list we suggest that you contact that gentleman over there and let him know.

STATEMENT OF RON TRIEBWASSER

Mr. TRIEBWASSER. My name is Ron Triebwasser from Emery, SD, I know Senator Abdnor is familiar, he's been in our auditorium many times. I would like to mention one thing since I am fairly local, it is when Senator Abdnor got into Washington the first term in the Senate all of the sudden that Hanson County rural water got funded, it has become a reality, it is serving around 500 people and I am not on the board, I am just stating it. It is a self-paying thing and our water bill, we milk quite a few dairy cows, our water bill runs approximately $69, $70 a month and it was costing us when we found out the electricity and the chlorination around $65 to $70 to pump it ourself. We have good quality water, so we want to thank you for that, Senator Abdnor. We realize you people that are Representatives from the agriculture community are going to have your hands full, you have a big job to do.

A few things that I was thinking of while I was sitting there, I think one way that maybe we could help you do your job is if these committees, and you know who they are that we need to write to, if you would establish some kind of committees out here in South Dakota where we could contact people to contact those people to write, if you provide us with the information so we know what we are talking about, we feel we could help you.

Also I think it is important to keep our farmers in business, because according to one man, he said if you, for every seven farmers that go under, we lose one business. In our area, our community, we work very closely with our businessmen, a few years back we put a swimming pool in for the community for $28,000 that the Government allowed us. We were to match it. We did with voluntary labor, and I think that is one of the things you find in a small community, people will do things for nothing, they don't have to be paid. We found this out at our school.

Also I think we need to recognize the silent partners in the farm operation. If it wasn't for the wives running tractors, milking cows, whatever, the unpaid silent partners that the Government does not have to put up a day care center and raise their kids, you wouldn't have as cheap of food as you do. This morning I heard over the radio that our food, the consumer spends 17 percent of their income for food. We are paying, we have paid up to 19, 20 percent interest. Who is subsidizing who? Is the Government subsidizing the farmer or is the farmer subsidizing the consumer? I think we need to get these out.

Third, I think we need to establish what is a family farm. If we can establish that, I think it can be done through the ASC committees, in other words are 80 cows considered a family farm? We have to be realistic that people have to earn their money, but at the same token we have to compete on an even footing, we cannot have a foreign country subsidizing up to $5 on grain. The world market is $5, yet they are subsidizing it and bringing into our market cheaper. We are talking about confidence on the loan.

How can a farmer have confidence when the farm loan people I believe are unrealistically valuing our land? Maybe it was overpriced before, but I think we are facing an unrealistic value now. They are valuing it at less than the bankers do. In our community I am very proud of our banker because he has stayed with us. He has been realistic in his values. I think the Government could learn something from this. If you are talking about loans to farmers, Ithink that the Government needs to put a realistic value on the land again. Maybe it was overpriced a little before, but I think they need to put a value on now to get enough money to put their crops in the ground. Because if a farmer goes under, somebody has to pay the bill. The papers are full of bankruptcies. Either the farmer takes it all, or the businessman takes it, or the banker, or somebody. Somebody takes the loss, somebody pays. Our country cannot go on this way.

As far as the Dairy Program, I would like to address that just a little bit. It has I believe worked out good, but I feel it should be around another year to take care of some of these heifers that are out there, and it would be painful for the dairymen, but I think it needs to be done to get the milk under control. We have produced milk the last 3 years at the same price. There is nothing else that's been the same price the last 3 years.

Getting back to the grain farmers, you could buy a B John Deere, a plow, and cultivator in 1939 for $100. Granted we would not want to go back to that situation, but I think if we get back to the family farm or decide what the family farm is, if somebody wants to go out there and farm the whole world and they want to do it for less than cost, that is up to them, but I think we ought to have a realistic figure what a person can have on a family farm and earn a living. I thank you very much for coming out here and we know you are going to do the job in Washington, and if there is anything we can do in South Dakota, let us know and we will help you.

Senator ABDNOR. Thank you, Ron. You made some fine points here. You said the Dairy Program should go on 1 more year. Why, wouldn't it be as bad ending it in 1 more year as it is now?

Mr. TRIEBWASSER. I am saying the program paid for itself last year, it didn't cost the Government a dime. What is going to happen if all these heifers come into production which we hear they are out there and I know they are. I cut my herd back so I am not going to be flooding it. I will be able to stay within a percentage. They are going to take 50 cents off in October, another 50 cents off in November. What is the advantage of having all the cattle come in, flooding the market, when we are producing at less than we should be getting? What are we going to be gaining? We have a good start, let's hold it there.

Senator ABDNOR. There were some complaints about the program when it started, but I have heard good things overall. The direction we were going before this program was such where we were hitting close to $3 billion the cost of the program in 1 year. It just couldn't go on that way because the heat was on. I remember the chairman of the Senate Appropriation Committee, Mark Hatfield, came in with two blocks of cheese all moldy and dirty and said this is what is happening. He had the whole Senate up in arms, and the cost went from about $250,000 to $1 million and then went to $2 million. I thought this too was a pretty good program. I suppose there are those that would disagree, but no more than there are those that feel it's been costing. It makes you wonder what we are doing getting rid of it.

Mr. TRIEBWASSER. One thing, Senator, why do we have to export the raw material? Why can't we export the finished product? We send the grain over and it goes to someone else that makes money on it. Why can't we produce it here? Why don't we sell the finished product? That is where the money is; I just can't see it.

Senator ABDNOR. That is a good point. What do you consider a family farmer?

Mr. TRIEBWASSER. It will vary according to the area. Like in our area, I would say from anywhere to 60 to 80 cows if you are in dairy. Sows, you might be looking at 50 sows. There again it depends on what the market is going to be. If you bring a son in, that would increase it a little proportionately, and I think we have to allow for that.

Senator ABDNOR. Thank you very, very much. Any names been added? I think hopefully we gave everyone a chance to speak today, and we appreciate it. Again, our reporter has taken down every word that is going back to Washington; hopefully, it is the start of a worthy program that will tell the story of rura l America and our problems. It will let Washington know that we have to be considered when they start looking at programs, and that they have to pay some attention to what is good for rural America, particularly the farms and the farm program, and so I appreciate this very, very much. Some of you have come from a long ways off, and hopefully you feel that, too, it was worthwhile. It is, as I said, the start of a new program, and we hope to reach some results for a change.

Mr. Jahr, do you know of anything other than some announcements? I would like to remind people that on Wednesday we are going to be in Brookings for another one of these hearings, and of course we have entitled it Taxes and Agriculture. I think that is an extremely important one. Of course, I am what they call trying to put a limit on the amount of agriculture loss they can take off for tax purposes.

These holding companies have been coming into this country and plowing up our countryside, the fragile land. After 2 years of doing this, they use it for wheat or some crop year after year. Under the ridiculous allocation we make for allotments on wheat ground, they end up with a huge allotment and collect big Government programs and grain we don't need. The land should have never been touched. There are a lot of things in this area I want to talk about. I have a bill that does just that, and so we are calling this meeting for the whole tax situation. If somebody wants to talk about the new program, they are talking about the flat tax which may have some merit. We have had hearings on that.

I brought a man out from the Treasury 2 weeks ago and we held three meetings, in Rapid, Aberdeen, and Sioux Falls, to kind of explain it; now I would like to get some comments any of you fellows have to make on it. So if you have an opportunity, we would like to see you up in Brookings. I know a lot of you are going to Pierre tomorrow, and I will be there too along with Yankton. We have a busy schedule, but if you can make it, fine.

I guess we are going to hold for one more comment here, we don't want to cut anybody out, although we do have a deadline. My reporter is going to get awfully tired here in a minute. I promised Laverne Aisenbrey that I would announce that the South Dakota Legislature will be holding a hearing on S. 1338, the Family Farm Act, tomorrow morning beginning at 8 a.m. He is encouraging all of you to take avid interest in this State legislation. That is for your information. Delmar Guthmiller, where are you? Our last witness.

STATEMENT OF DELMAR GUTHMILLER

Mr. GUTHMILLER. I am sorry I am coming in this late; I just got out of court, that is why I have just arrived. I don't know what has been said here, I wish I did, but I don't. I don't know if you have seen what I sent you at your Sioux Falls office, probably arrived on Saturday.

Senator ABDNOR. No.

Mr. GUTHMILLER. As I go into this, I am wondering is there a blackboard that would be available to be brought up front?

Senator ABDNOR. I don't know. I don't think so.

Mr. GUTHMILLER. I think probably somebody is going after one over there. I guess we can get along without one. Senator Abdnor, for 3 years, I have had the farm problem with deep concern on my mind. I knew about the trend which my farm was taking, that American agriculture was headed for deep trouble. As in every operation, we need cost of production plus a reasonable profit which even the PIK program, so on and so forth, we have not been getting.

It seems the political sector believes the answer is in exporting our surpluses, creating a shortage so to speak, thus driving prices up. I do not believe it will ever work because the countries that need our food don't have the money. Furthermore, our selling costs are too high and we seem to be under bid by others. So often the surpluses we sell are sold by first giving the purchaser a loan at a low interest rate so he can buy it, then they can't pay for it any way. To actively and strongly pursue that avenue seems rather foolish.

From what we know, our country consumes approximately 60 percent of what we produce. It is my feeling that we ought to pursue a higher price for this 60 percent. It is also the greater percentage of the total production. For a long time now, many years, the percent of our national per capita income which is spent for food has become less every year. This tells me we are not paying what we ought to for our food, and we are not returning to the new wealth creator or producer its due compensation.

Agriculture is the main contributor in our foreign balance of payments helping to keep this country afloat. If we don't pull agriculture out of the mess it is in, we will all go under. We know that our cost of production is per unit, but we can't seem to get that price up because of consumer resistance. For all practical purposes, let us assume that it costs us $6.50 to produce one bushel of wheat. Now if we received that $6.50 at our local elevator, it would cause two things: First, the cost of food would suddenly be staggering. We could easily have riots in the cities.

Second, it would put us completely out of the export market if we sold it for its cost. It seems every time the price of a commodity goes up even a little, the end product price does in proportion likewise. Then we have a great howl from the consumer and the news media seems to blow it way out of proportion. If the commodity price goes down, somehow the end product price remains suspended. As it went up proportionately, it ought to come down proportionately.

How then can we receive the price we need? I believe the solution is a surcharge placed on the product at time of purchase by the consumer. The price figures I use are hypothetical, although not too unrealistic. They may be adjusted up or down to attain the attendant goal. To be able to get the proper train of thought you must look at the charts as they are numbered. I will try to explain this then.

Senator ABDNOR. In fairness, we have had some time limits, how long do you think this will be, I know when you go in to farm programs we are talking about a pretty long thing here.

Mr. GUTHMILLER. I would say it would take me 2½ minutes.

Senator ABDNOR. OK.

Mr. GUTHMILLER. What I am doing, the first chart I would draw, would be a chart showing where this bushel of wheat goes from the time the producer takes it to the elevator. It goes to the elevator, to the terminal, to the miller, to a wholesaler, to a baker, to a wholesaler, probably to a grocer, and then from there to the consumer. OK, the surcharge that we are talking about would be put on this product at the place just before it is used by the consumer.

Senator ABDNOR. Is this kind of a value added tax you are talking about? Sounds that way.

Mr. GUTHMILLER. I call it a surcharge, it could be called a tax, but a price put on this bushel of wheat just when the consumer buys it. It would be at the point where the baker sold it to a consumer, where the wholesaler sold it to the consumer, or where the grocer sold it to a consumer. Let's say that that bushel of wheat goes to the elevator, the farmer sells it for $4 a bushel. The elevator then takes this bushel, part of it goes back out to the farm for feed, part of it goes on to the terminal. At that terminal part of it is probably exported and the rest goes onto the other users, and that amounts to roughly 60 percent or 36 pounds.

Senator ABDNOR. Do they pay it on the export?

Mr. GUTHMILLER. No, there is no surcharge there.

Senator ABDNOR. How about on the grain for cattle feed?

Mr. GUTHMILLER. No surcharge. Now, as this bushel of wheat goes through its proper channels, it is finally baked in to bread, or rolls, or whatever. They make noodles out of it, or macaroni, or whatever. At that point where it is purchased by the producer we add a surcharge. You say how much is this surcharge? OK, the grocer today sells a pound of bread for $1.

I say let's put on 10 cents to that loaf of bread as a surcharge. We find that there are roughly 60 pounds, 60 loaves of bread in a bushel of wheat, that is $6. OK, 60 percent of that for 6 pounds amounts to $3.60. That $3.60 is sent onto the U.S. Department of Agriculture, there it is administered, the farmer takes in a receipt to the ASCS office, he says I have a bushel of wheat here, I want my 60 percent share of what the consumer used. That amounts to $3.60, let's take out 10 percent of that and put it in to research, in to administration, in to development and all these other things. OK, he then receives roughly $3.24 plus the $4 which comes to $7.24. And yet the export price will be low because he sold it at $4.

The feed, the wheat that is used for feed is still only at $4 plus a little markup.

So what we are doing there is taking the money out of the metropolitan areas, and we are giving it back to rural agriculture where we so desperately need it. Now what will this plan do. First of all, it will give us a cost of production plus a profit. It will insulate against gouging from other interests, and we do this by putting the surcharge just before it is used by the consumer. We bring money from the metropolitan areas back to the rural areas. We make our products competitive with foreign commodities. We discourage importing. We make agriculture as a whole self-supporting.

President Reagan wants to get rid of the farm program, this would sure give him a good chance because it is self-supporting. We eliminate price supports, Government loans. We eliminate industrial farming because it is profitable, you can't write it off. It would limit production because all that would be in the hands of the producer as he stores it, it will stabilize land prices, and it will insure agricultural research and development. Now you have the general proposal of my plan. I have been using flat commodities, it could be used for meat commodities the same way. I think we ought to take a look at this. What I would like to do is get some feedback from the people out there. Thank you for your time, Senator. I am sorry I came a little bit late.

Senator ABDNOR. That is all right, we have been going over our limit and I thought we were getting near the end. I commend you for coming up with a plan, I think that is what we ought to talk about and that is very innovative. Have you ever heard of a gentleman by the name of Miles Koskins? He is from over at Wood, he has very much the same program. I didn't have much time to spend with him the other day at the irrigation meeting, but he came all the way over to talk to me. I was thinking about certificates.

I agree people are buying their food too damn cheap in this country, they have had a bargain long enough. I don't know how we get around it, that plan would have to be OK'd by the Finance Committee, not the Agriculture Committee. There are an awful lot of people on the House Ways and Means Committee, it is the Senate Finance Committee that has the jurisdiction of that. And I am not saying it can't be done, but I think we have got to keep plugging away. That sort of thing could be brought about, if one at a time all thought of it, I am sure some experts could pick it to pieces in a hurry, but there is no reason why you couldn't make the adjustments you need to get rid of the fault in it.

We have had other proposals today but, one, I think food is too cheap in this country, and people ought to be willing to pay more. That is not the majority of the peoples' thinking. I don't care what party is in power, the Democrats or Republicans. They put an article in the paper, if you look far enough, in the end they always say this couldn't make the consumer prices rise. It better start rising pretty soon. I think it is good to have your testimony, I am glad to have it on the record, and if there is anything more you want to submit on it we would be happy to take it in writing.

Mr. GUTHMILLER. One thing I didn't say and that is if there is anything we don't need is another loan. We just want to pay back the ones we have got, and the only way to do that is we have got to have a margin of profit. Thank you.

[The prepared statement of Mr. Guthmiller, together with the charts referred to, follows:]

Prepared Statement of Delmar Guthmiller

For 3 years I have had the farm problem with deep concern on my mind. I knew by the rend which my farm operation was taking that American Ag was headed for deep trouble. As in every operation, we need cost of production plus a reasonable profit, which even with the PIK program etc. we have not been getting.

It seems that the political sector believes the answer is in exporting our surpluses, creating a shortage so to speak thus driving prices up. I do not believe that it will ever work because the countries that need our food don't have the money. Furthermore, our selling costs are too high and we seem to be underbid by others. So often the surpluses we sell are sold by 1st giving the purchaser a loan at a low interest rate so he can buy it. Then they can't pay for it anyway. To actively and so strenuously pursue that avenue seems rather foolish.

From what we know, our country consumes approximately 60% of what we produce. It is my feeling, we aught to pursue a higher price for that. It is also the greater % of total production.

For a long time now (many years), the % of our national per capita income which is spent for food has become less every year. This tells me we are not paying what we aught to for our food and we are not returning to the new wealth creator or producer its due compensation. Agriculture is the main contributor in our foreign balance of payments helping to keep this country afloat.

If we don't pull Ag out of the mess it is in we all go under!

We know what our cost of production is per unit but we can't seem to get it up becauae of consumer resistance. For all practical purposes, let us assume it costs us $6.50 to produce one bushel of wheat. Now if we received that $6.50 at our local elevator it would cause two things:

First, the cost of food would suddenly be staggering and we could easily have riots in the cities.

Second, it would put us completely out of the export market if we sold it for its cost.

It seems every time the price of a commodity goes up even a little, the end product price does in proportion likewise, then we have a great howl from the consumer and the news media blows it way out of perportion. The commodity price goes down but some how the end product price remains suspended. As it went up proportionatly it aught to come down proportionatly.

How then can we receive the prices we need. I believe the solution is a sur charge placed on the product at time of purchase by the consumer. The price figures I use are hypothetical although not too unrealistic. They may be adjusted up or down to attain the intended goal.

To be able to get the proper train of thought you must look at the charts as the are numbered. The first one is a simple chart showing the various stages one bushel of wheat goes through by the time the consumer receives it. The second one is a more detailed chart showing at what point the sur charge would be attached. The third chart is still more detailed. It shows where the sur charge is sent and how it is administered and distributed. It also shows figures (not to unrealistic) that would have to be adjusted.

In order to receive the price [illegible] must insulate it from the other business sectors.

This plan could be used for every Ag commodity we have, Each one would have to be broken down into the various uses by % of weight or volume and the end product price (with the sur charge) calculated.

Benefits of this plan:

1. Give cost of production plus profit.
2. Insulate against gouging from other interests.
3. Bring money from Metro areas back to the rural areas.
4. Make our surplus competitive with foreign commodities.
5. Discourage importing.
6. Make Ag as a whole self-supporting.
7. Eliminate price supports.
8. Eliminate Gov't. loans.
9. Eliminate Gov't. storage.
10. Discourage industrial corporate farming.
11. Discourage tax write-off investments.
12. Limit production (all excess would be in hands of producer-he stores it.)
13. Stabilize land prices.
14. Would insure Ag research & development.

Problems with this plan:

1. Figure the %'s and costs.
2. Establish a policing system to guard against cheating and fraud.

Now you have the general plan of my proposal. It has been worked up using plant commodities, grain, etc. The same one could be used for animal commodities-meat.

The advantage points and disadvantage points do present a challenge. I do have proposals and answers for some of them which I will not explain at this point.

We need to convince the American consumer the day of (Free) food is quickly drawing to a close. If we allow the family farm to slide into extinction and allow industrial corporate farming to take over, it will set the prices once it has control because the non owner farm laborer will unionize, efficiency will drop, production will drop and quality will drop. This will cause prices to sky rocket. We could sell a loaf of bread for $3.00. I do believe there will be empty grocery store shelves in America, even wide spread starvation. How soon? 3-5 years.

There is one thing certain, the programs we are in now are not working. Who needs another loan. We just want to pay back the present ones!

I do not know what effect this plan would have on the commodity futures market but we would not be intimidated into using it. Something few of us can use to total advantage.

I realize that the first look at this plan by the rural consumer would cause some alarm because it would cut into our already below average income even more. This, however, would be for only a short time because as the $ return from the Metropolitan areas to the Ag sector, it gives it buying power. More profits to the small businesses in our communities and thus a better wage.

52-112 O - 85 - 8

CHART I WHEAT

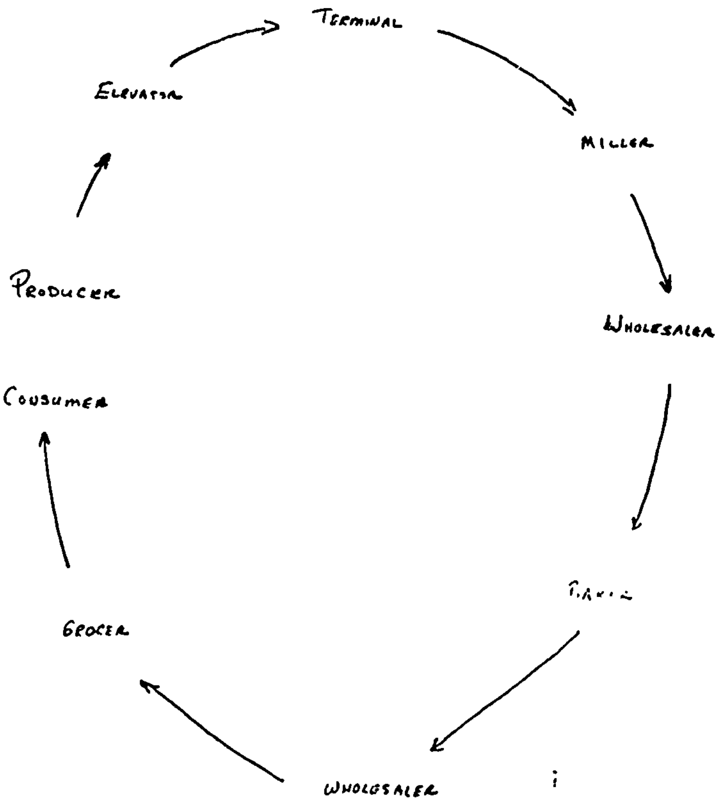
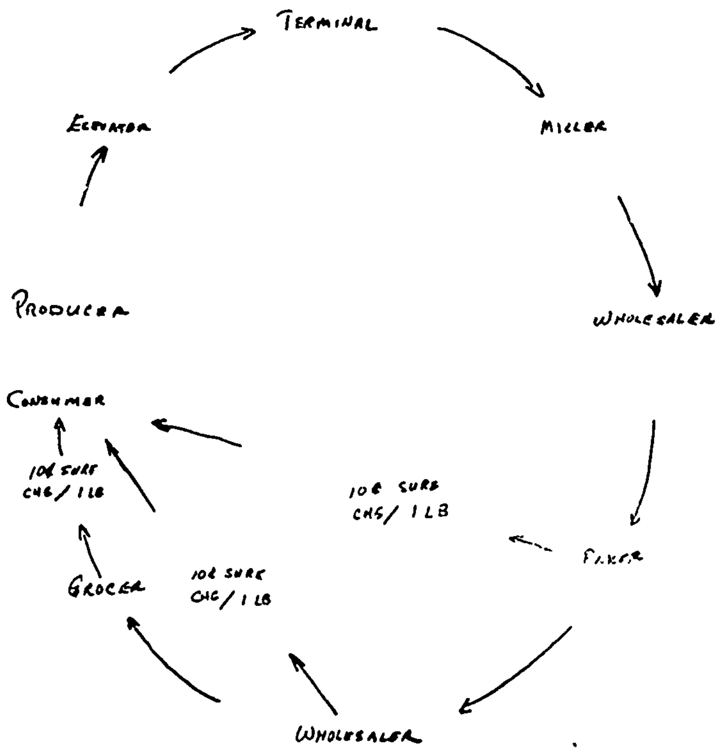


CHART II WHEAT (1 BUSHEL)



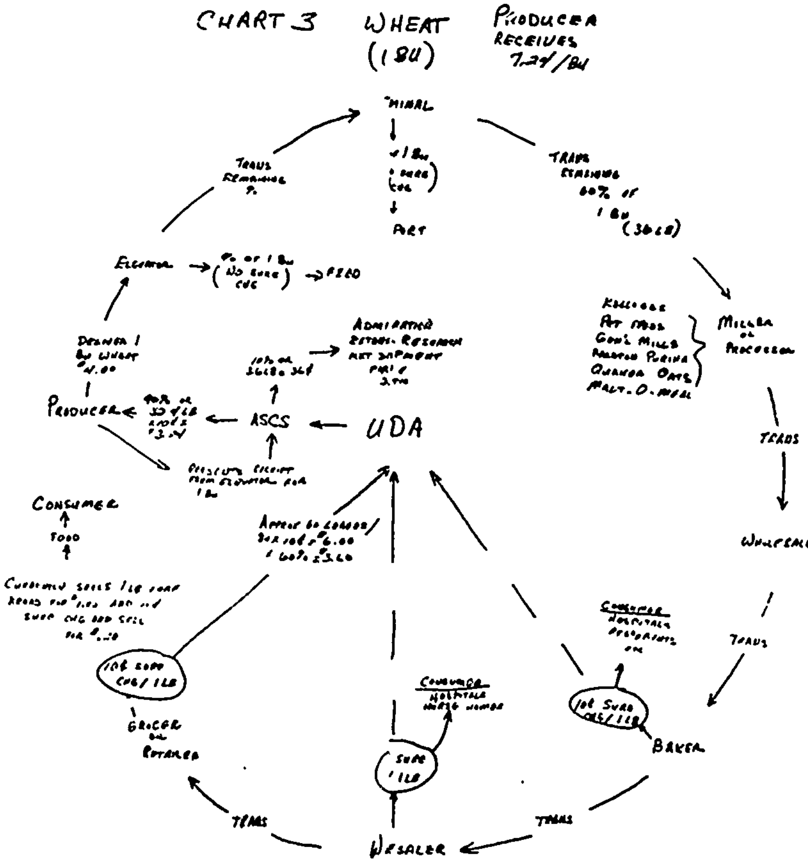


CHART 3
WHEAT (1 BU)
PRODUCER RECEIVES
UDA
ASCS
PRODUCER
CONSUMER
ELEVATOR
MILLER OR PROCESSOR
WHOLESALER
BAKER
WESALER
TRANS
FEED
Kelloggs
Pet Milk
Gen'l Mills
Ralston Purina
Quaker Oats
Malt-O-Meal
GROCER OR RETAILER
FOOD

Senator ABDNOR. I think I am safe in saying this is our last witness.

A WITNESS. Every day we are talking about loans or borrowing more money, and every day we are deeper in debt. Like the old song goes another day older and deeper in debt. I don't want to ask you why, I want to ask you does the American farmer owe the American public $2.40 corn? I think once we get that answered, then we will know that we can get a better price for what they are producing. We have heard a lot said today about the cost of production. I think we want to go a little further than that, because nobody wants to work for nothing, that is about what you are doing when you work for cost of production. These people they should have a good living coming, because they are the most efficient, we see that, we know that of anybody, but then why do we keep their prices down, and I think there are solutions.

When you go to, when the politician is out campaigning he doesn't come to the rural area because we don't have a population, we don't have the votes, do we, so we go where there are people. Ten percent unemployed a few years back, we didn't come from the farm, we went to these people, they were carrying their signs, farmer is home working, he is busy and doesn't have time to come up to the front lines and wave their signs. We are not hearing the touch of a few people out here and we are not hearing this. Farmers write to your Senators, write to your Representatives. Senator Abdnor, I think that is fine if these people had committees they could go to because it is pretty hard to call from home to Washington. If we could meet with some people, we could give them a lot of input.

Senator ABDNOR. To use that as an example, Delmar Guthmiller, that was his plan, you would have to talk to the Finance Committee. You could write to death if you wanted to write to the Agriculture Committee, but the Finance Committee has jurisdiction.

A WITNESS. Why do we need so many committees to keep our prices down. We run all this stuff through committees. I think we are looking for excuses only.

Senator ABDNOR. No, these committees have been there since the advent of the Senate. Agriculture handles agriculture. Finance handles finances and commerce. I have Water Resources, I am chairman of the Water Resources Committee. They wanted to put on a users fee, and I told Stockman to go ahead, I am not going to monkey with a users fee. I could pass a water bill, but he could kill it for me when I got over to his committee. It is crazy but that is the way. We have what they call jurisdictional, these are the long-time-standing committees. Each committee can only come in with their own sort of thing. I am sorry, I agree with you, I get sick and tired of that, but——

A WITNESS. What can be done to do something about this? You talked about an imbalance of trade. When we had $3.25, $3.50 corn we were exporting a lot more than we have now at $2.40, why? I think we are not getting the answers, there has to be a reason for this.

Senator ABDNOR. Compared to the corn in other parts of the world our prices are 30 percent higher than theirs because our currency is clear out of whack. There are other factors, but we had $2 corn you would have to add 30 percent (or 60 cents) to that to compete on what somebody else has to sell. That is the sad problem with this whole thing. With the high, overvalued currency, we either have to take the money out of treasury or something until we get that dollar down so we can be on a competitive basis. It is unfortunate. I guess that has brought the kind of deficit we have today in Government, we don't save enough money in this country to finance it. That money is coming in from overseas, I hate to tell you that, and some people think we have to have a strong dollar to keep bringing money in to finance our debt, but I don't think that is solving the problem in any way. We have to get our money in line with other countries' money so we can compete, and people can do well. With a $25 billion trade balance deficit, how many jobs would that make in the country if we didn't have that, if we were selling our own goods?

Mr. SMITH. I am not sure what the exact number would be, but it would put a lot of people to work.

Senator ABDNOR. $1 billion trade deficit, and we have 135, 40 or more coming up makes 50,000 jobs in this country. So we have a lot of reasons to be concerned. I mean not only for agriculture, but for the good of the country. If we had 50,000 more people working, we would be a lot closer to balancing the budget. We would be bringing in more tax dollars and more people would be earning a living instead of being paid out of unemployment compensation and programs to help them get by. You are right, these are problems, and you think we can get down to taxing the problem. But I do know that few people dispute the fact that a $230 billion deficit per year like we are doing now, and we are going to add $660 billion to a $1½ trillion deficit already, is not helping that value of that dollar with all the interest we are paying and all that goes with it. If you have $2 trillion worth of deficit, I am almost not so sure you shouldn't write it off. I don't know how we are going to pay it. The third biggest and fastest growing item in the budget is your interest on your debt. If you have $135 billion this year, and you add $2 billion more in deficit, you are going to add $125 billion to your debt next year because each one compounds and you owe more money. That is where we are coming from. Somehow, some way it would definitely help bring interest rates down, and it would help get our trade moving. These are all problems we are dealing with. I just want you to know where we are coming from, some of us are trying to do the battle down there.

A WITNESS. I would like to compare our farm prices a little bit to wages. When we had 10 percent unemployment we didn't see cheap wages. But just let us produce a little bit too much grain or anything and we see cheap prices on everything. Now they are predicting an 8½ billion bushels of corn already for next year's crop, and I am sure they are going to use this to keep our crop on hand right now at a cheaper price. I don't think they should be able to do this.

This morning a guy from the farm movement was up here and he was asking for I think $20,000 per family farm. In your letter you had stated that the average wage earner gets $30,000 a year. So, already, I think the farmers again are asking for a second grade income or a back seat to whatever their city cousins are getting. I think those people that are arguing a $30,000 a year wage, they should be able to pay a little more for food. I think right now the figure is out at about $29 billion increase in defense. I guess that I would have to say I am one of the guys that is for defense, but are we looking at a $29 billion increase in defense and then turn our back, not turn it to the side, but turn it to the farmer and let him go under? It is going to be pretty hard for the people I think to eat a missile or a B-1 bomber and not have no food. I think that needs to be taken in to consideration. Which will you be stronger with if the people are well fed or you have a lot in defense?

Not too much has been said today about small businesses. I do have a small business. I think there you go again, I think you get down to the point where you have 20, 30 businesses in a small town, you have 200 farmers, again there we are a minority. If you look at the Sioux Falls paper in the last 6 months there's been two to three sales in there. Not just farms, it is agriculture-related businesses. It is probably grain elevators, fertilizer places, petroleum bulk dealers. You don't hear too much of that, but those people are in trouble too. It isn't just the farmers. Those people are in trouble. I don't think it was because they haven't had the business, they'd have had the business, but they haven't been getting paid like they have in other years because they haven't been getting their loans. I don't really see why a person should work all year and then borrow money at the end of the year to make it. This is not right. They are not getting a fair wage for what they are doing. With that I am concluding, thank you.

Senator ABDNOR. Thank you. I am sure a lot of us would agree with you, and no one can question that. I can tell you about defense, he may have asked for the $29 billion increase, but I think I am confident in telling you there will be no such increase like that. The other thing that does trouble many of us in the agricultural areas is that agriculture is being asked to take an ungodly fair amount of that cut, and I don't think that is going to happen either. I think it is all going on the board, and the word equal is going to be all the way through that. I think if everybody is treated equal, they might accept some kind of cut and I hope they stay with that.

The one thing you can't cut is that darn interest on debt. I mean we would like to, but that is one that stays out on the perimeter; but if you don't cut defense, if you don't cap social security, and you can't cut interest, you are talking about two thirds of the dollars we spend, and you haven't got much else to go. We just think that isn't acceptable, and from what I can tell of the leadership of all sides everything goes on the table when they look at this.

A WITNESS. I think in that was something brought in about better retirement. These farmers are going to be close up before their time if we don't help them there.

Senator ABDNOR. This concludes the hearing, once again I thank you for coming out and giving us the benefit of your thoughts. I hope we can make this pay off down the line when we have some evidence to show people in Washington that rural America does indeed count and they better receive some attention. Thank you very much.

[Whereupon, the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

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fjc freeman junior college

748 South Main Street, Freeman, SD 57029

Office of the President

February 11, 1985

Dear Senator Abdnor,

Attached are two items that illustrate the impact of the farm economy on a small junior college. Fluctuations in donations and student enrollment make planning difficult.

Thank you for scheduling this hearing in our area.

Sincerely,

Art DeHoogh

Dr. Art DeHoogh
President

ADH:ssk

(229)

under an agreement to control regulations, Rep. Scott Heidepriem, (R) ... The legislators viewed the disposal site to aid their decision in choosing a ... (D) Wilmot, Assistant House Minority Leader, South Dakota's current ... Leader, said that the compact agreement and regulatory guidelines have to be in place before South Dakota can ... they should not let the opportunity pass if it is a good one, Heidepriem said.

Courier DEAD-LINE Monday Noon

INDEX — 16 pages

Freeman College Board of Directors adopts financial contingency plans

Finances were the focus of attention at the Freeman College Board's regular monthly meeting last week. Concern centered on the approximately $200,000 yet to be received for the current budget in the next six months from the Strength for Tomorrow appeal, now in progress. A set of contingency plans was adopted to assure adequate cash for operations should campaign proceeds fall short of the goal, or arrive late in the period between now and June 30. Included in the contingency plans are two possible meetings of the FJC Corporation, in late February and early May, to inform members and to seek approval of specific contingency measures.

In a mid-year review of the '84-'85 Budget, nearly $300,000 of the $380,000 goal for the Strength for Tomorrow appeal was designated for that budget. The remaining $80,000 would be designated at a later date. The $300,000, of which approximately $100,000 has been received, was expected to come about evenly from "traditional donor" sources (40 percent or $120,000), and from "new donor" sources. These new sources include General Conference Mennonite Churches and alumni with special interest in the future strength of FJC.

Contingency plans were considered necessary because commitments from churches were not scheduled to arrive until later in January to early February. Appeals to individuals will begin in February with results not known until later. Therefore, proceeds could arrive late in the period between now and June 30 with final results remaining uncertain until actual receipts are in.

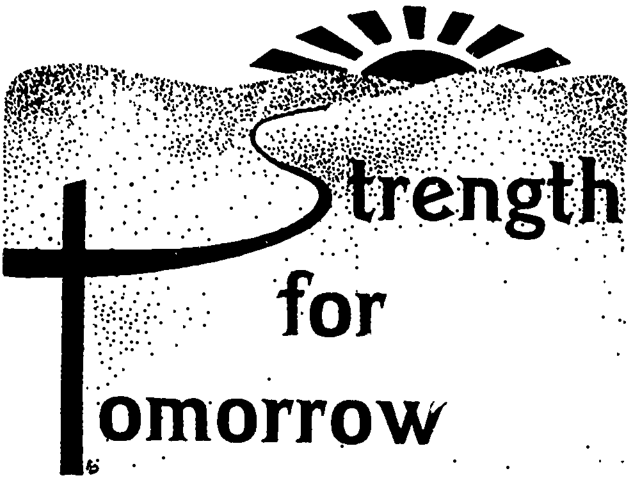
A Finance Committee recommendation calling for a special Corporation Meeting was approved. The Corporation would be asked "... to authorize a contingency plan, if needed, for further spending (based on further borrowing, according to available credit) or grant permission to use assets of the Corporation to finish out the year."

President DeHoogh, in his report called for a follow-up Corporation meeting by early May to consider major presentations on options for future directions. "Hopefully a report could be made that current income would reach or exceed expectations," said the president. "On the other hand, if present concerns persist, this timing would '... provide maximum opportunity for implementing positive plans for next year's operations, student and staff retention, etc." he continued.

These actions were taken in an effort to prevent the circumstances that led to Yankton College's sudden closing, where a cash-flow problem was at least part of the cause. The Finance Committee anticipated a possible FJC cash-flow shortage as early as March, based on least optimistic projections.

The Executive Committee was assigned the task of setting the date and agenda for the Corporation meetings and for organizing the long-range studies and recommendations for future directions. LaVerne Graber, chairman of the Board also chairs the Executive Committee. Other members, who also each chair a Board Committee, are: Rachel Graber, (Farm and Finance); Norman Hofer, (Buildings and Grounds), Sylvia Hofer, (Student Affairs), Delbert Kaufman (Annuities and Endowments); and Tim Waltner, (Development).

FREEMAN COURIER - 1/23/85



"Strength for Tomorrow" represents an emergency financial appeal approved by the General Conference Mennonite Church for Freeman Junior College of Freeman, SD.

Located in the heart of farming country in southeastern South Dakota Freeman Junior College has offered Christian education for service since 1903. Liberal arts blended with career and vocational programs provide well-rounded courses of study.

The small school has traditionally drawn its support from local agriculture based constituents of the General Conference Mennonite Church. When extensive rains turned to floods this spring, the planting of most crops was delayed as late as July. Conditions worsened as the growing season was cut short by September's early frost resulting in an unstable economy for the community.

The addition of a new career program in Heavy Construction Equipment Operation, the building of a new Applied Sciences Center, and recently acquired status as a candidate for accreditation with the North Central Association all indicate areas of growth for Freeman College. FJC strives to carry on development during this unstable time relying on pledges of aid across the church. With your support today, there can be continued strength tomorrow.

Contributions may be made through congregations or directly sent to the address below.

FREEMAN JUNIOR COLLEGE
Box 1000
Freeman, SD 57029
(605) 925-4237

Freeman Junior College offers two years of Christian Higher Education from a Mennonite perspective which blend Biblical teachings with Liberal Arts programs and with Career Vocational programs, equipping students for service to Christ and the world.

COPY

Note: The above is a bulletin insert sent to supporting churches.

PLUNDER, AMERICAN STYLE

PLEASE Don't Let Message Die Get Copies Send to Friends

FRACTURING THE PEOPLE WITH FRACTIONAL RESERVE; TAXES; LEGISLATION AND OTHER DEVICES

There is a theory known as the Theory of Cognitive Dissonance (TCD) which holds that the mind involuntarily rejects information not in line with previous thoughts and/or actions. Brace yourself, the following message may be entirely different from anything you believed to be true heretofore. If you are unaware, you are unaware of being unaware!

—Merrill Jenkins, M.R.

It can be extremely difficult for well fed, comfortable and amused people to conceive of a system of plunder that they, their parents and grandparents were born into along with the plunderers, their parents and grandparents, yet such failure to see does not prove the non-existence of that system, it only insures that it will continue until the people are stripped of all of their wealth and reduced to serfs. Throughout history, governments have plundered their citizens. Ancient governments clipped the edges of coins and melted the clippings to make new coins, which also were clipped. The serrated or milled edge of coins was intended to prevent that practice. As time passed, the plunderers progressed to debased coinage, that is, base metals were switched for all or part of the precious metals in the coins. Still later, non-redeemable paper currency was used to steal the fruits of men's labor. The most sophisticated plunder yet inflicted on trusting citizens combines the use of controlled news media, paper and metal tokens; credit (monetized debt) and imaginary taxes. The news media and schools deceive the people to believe that copper tokens and credit are "money"; that prices are inflation and that some of the "money" must be returned to the plunderers as taxes even though the plunderers have access to unlimited "money." The plunderers' creation and financing of foreign "enemies" helps to convince the victims that taxes are needed to support government while largess to the most robbed poor buys votes to perpetuate the plunder. The ancient Chinese carved in stone, "Disperse the money, collect the people." As the Romans had bread and circuses, we today, have food stamps, football, foosball and fools on TV ad infinitum. We must be distracted at any cost, after all, when the plunderers originate "money" themselves, cost, to them becomes meaningless!

With 50 different ways to spell 'theft' in the English language, the most insidious method, inflation, is seldom thought of as being a criminal act. UNPROSECUTED FRAUD IS NO LESS FRAUD! In spite of what the inflater controlled news media tells you, INFLATION IS BANK CREDIT or any purchasing unit that the first party to use gave up nothing to get. Counterfeit currency is a good example. Ever higher prices are the result of a privileged group introducing into and bidding in the marketplace, fraudulent purchasing units and getting something for nothing. Check your billfold. Any bills you have without a promise to pay on them are counterfeit! That is, if counterfeit can be defined as anything fraudulently labeled to be something that it is not. Until 1963, our currency bore a promise to pay x dollars to the bearer on demand. How could the paper become what it once promised to pay by simply deleting the promise? If it promised 10 oranges, how much orange juice could you squeeze from one 10 orange note?

Congress sanctioned this form of theft by passage of the infamous and unconstitutional Federal Reserve Act on Dec. 23, 1913. It was on that day that today's runaway inflation began to accelerate. The purported purpose of that act was to create an "elastic currency," a "currency" that was superior to rubber checks in that it could be stretched but it would not "bounce" back at the issuers. This feat was accomplished simply by seeing that there was no space provided on their checks (dollar bills) for endorsements. Clever, huh? Their unfunny money was needed to prevent booms like World War II and busts like 1929 neither of which could have occurred without their fantastic elastic. Modern wars require much modern "money" and the Federal Reserve "system" is the only source of such unlimited larcenous devices. PLEASE see your dictionary for 'device.'

In passage of that act and creation of a private corporation, deceitfully named the "Federal Reserve," congress and President Woodrow Wilson sanctioned what inflaters were once hung for, that is, fractional reserve banking. In so doing, they showed their contempt for the constitution that they swore to uphold. (See Art. 1, Sec. 10, U.S. Constitution.)

When the private corporation now known as the "Fed." issued their first fraudulent irredeemable note in 1914, they began to fill the lake behind the dam that is now ready to burst and drown us all including many bankers in a sea of spurious specie.

Knowing the possibility of such a disaster, the money manipulators devised a "spillway" for their "dam" which became the 16th amendment (income tax). As they issued more and more fraudulent notes to expropriate our wealth, a graduated income tax was necessary to relieve the pressure of competitive bidding of their fraudulent devices by the unsuspecting non-bank public. A pressure which unrelieved, would ultimately crack their "dam." The same duped congress in the same year, passed the 16th amendment for that purpose. It was falsely claimed at the time that the tax was needed to "pay the interest on the debt" and that it would "soak the rich." Apparently enough congressmen believed that propaganda. It was in fact to keep the rich from getting "soaked" by their "dam" bursting!

The tax started at 1% and was never to exceed 3%. That wasn't too hard to swallow, was it? When they saw that "spillway" was inadequate, they carefully planned another. It was called "Social Security." Since they couldn't find justification for increasing income taxes, a brand new tax was the answer. To make it more palatable to the people, employers were compelled to pay one half. It started out at just 1% on a maximum of $3,000 which came to only $30 per year. Who could argue about that? Wow! Only thirty bucks a year and no worries in your old age. Ponzi was a piker! How much are you being gigged for now?

Their whole scheme wasn't too complicated. They first established that they would have reserve requirements of 40%. That meant that when a sucker deposited ten dollars of gold in their "system," they issued a paper certificate that bore a promise to pay ten dollars in gold to the bearer on demand. They gave that certificate to their mark (sucker) and simultaneously they issued 15 Federal Reserve notes while they kept the gold! The people saw nothing wrong with that, after all, they could return their certificate to the bank and redeem their gold anytime they wanted to. They simply didn't see the barb on the hook; there wasn't enough gold for all of the certificates and notes outstanding, only 40%. As time passed, they reduced their reserve requirements to only 25%, which meant that for every dollar of gold deposited, they issued one certificate and 3 notes while they kept the gold. Abbott and Costello made a fortune with the routine, one for you, two for me, three for you, four for me, etc.

Where there was once just one purchasing unit, now there were FIVE, one gold coin; one paper certificate for gold; and three Federal Reserve notes, all but the gold coin were ready to be bid against each other causing prices to rise. Take note that we said rising prices were caused by the excess purchasing units. The Federal Reserve notes were the inflation, higher prices were the result of the inflation; the extra purchasing units. (Please refer to the third sentence of paragraph three above.) The certificate would be inflation too, if and when the gold coin was being bid in the marketplace against it. Theoretically, prices would quintuple if all of the purchasing units were being bid against each other at the same time. The income tax was instituted to remove from bidding, some of the purchasing units held by the non-bank public. The primary function of all Federal taxes and many state taxes today is the same as income tax; reduce bidding of non-bank public. National Health Insurance tax will cause a substantial reduction in private spending if passed.

When the Federal Reserve wrote in THE NATIONAL DEBT, "The Federal Government in cooperation with the Federal Reserve, has the inherent power to create money—almost any amount of it," you don't need Einstein to explain that taxation is not used to support government! Several Federal Reserve and IRS publications openly admit or at least allude to the truth.

Every Federal Reserve note issued was one unit of inflation for each unit (dollar) of money that appeared on the note. By 1933, the inflaters held enough notes to claim all of the gold so they had their front man, the con man of all con men, FDR, issue an executive order declaring that it was against public policy for the people to use gold in trade. When 95% of the suckers turned in their gold, the "price" of gold was changed from $20 to $35 per ounce. That's what you call getting them "coming and going." Not only had the people been robbed of their gold, they were conned to believe that the dollar was something tangible, concrete rather than abstract, and this misconception greatly facilitated further plunder of their silver. The dollar, since April 2, 1791, has always been a measurement of money, it is not and never was the money. How can anyone say "dollars per ounce" when the dollar itself is a measurement? Title 31, United States Code 371, tells us that the money shall be expressed in dollars. What further proof does anyone need that dollars are not the same as money?

Until June 24, 1968, silver coins were current as money. What took their place? Before anyone tells the IRS that they received or spent dollars of money, it would be advisable for them to learn what became current as money BY LAW, when silver coins ceased to be the money. Anyone charged with tax offenses should file an interrogatory, asking the revenue agents to tell them what commodity is current as money pursuant to Title 31, U.S.C. 371.

After the crash of 1929, many people lost confidence in the banks and were more inclined to make "deposits" in their back yard. When the Federal Reserve tells us today in MODERN MONEY MECHANICS that our bank deposits are merely "book entries," do you think that the F.D.I.C. was created to insure depositors against loss of their uninflatable silver or was this agency created solely, to instill confidence in the Federal Reserve "system" while "book entries" were systematically switched for their uninflatable silver? The Economics textbook in one St. Louis County high school reads: "To help restore the public's confidence in banks . . . Congress passed legislation setting up the F.D.I.C." There's your answer!! Further they state: "Income tax is one of the government's most potent weapons . . . " Income tax, A WEAPON? Yes, it is but their MOST powerful weapon is FEAR. The average citizen is so cowed with fear that they'd rather play the game and send reports of "dollars" earned and spent to IRS than to ask the IRS what the money is by law that those dollars are quantities of. Also, on page 3, of MMM, the Fed readily admits the main reason we accept their specious devices is because of "confidence." Are they or are they not essentially admitting that they operate a confidence game? "By their fruits, ye shall know them!"

We were told in 1965 that silver got "too expensive" to use as money. Silver never got expensive! The Fed. had simply issued so many fraudulent claim checks for silver that to prevent exposure of their crime, reserves had to be reduced to zero. In 6 years time our circulating coins became silverless. The Federal government profusely publicized the fact that the new "dollar" coins contain only 3 cents worth of copper and nickel. Those who [illegible] a 97% loss and tell IRS that they [illegible]. Speaking of mind control in [illegible] . . . IT'S HERE!

In 1920, writing in ECONOMIC CONSEQUENCES OF THE PEACE, English economist, John Maynard Keynes said, "Lenin was certainly right, there is no more surer, more subtler means of destroying the existing basis of society than to debauch the currency. By a continuing process of inflation, (credit usage) governments can confiscate secretly and unobserved, an important part of the wealth of the citizens. The process engages all of the hidden forces of economics on the side of destruction and does it in a manner that not one man in a million can diagnose." Further on he wrote, "If governments should refrain from regulation (taxation) and allowed matters to take their course (price explosion), the worthlessness of the money becomes apparent and the fraud upon the public can be concealed no longer." How true! In 1971, Richard Nixon said, "I am a Keynesian in economics." The high school text (above) says the Keynes theory is "most widely accepted by economists in the nations of the Western industrial world." This writer believes that we need never fear an invasion as long as we have Keynesian economists showing 15,000 commercial bankers how to destroy the existing basis of society by issuing credit that they call "money."

Writing to Amos Bruce of St. Louis, the Honorable Ron Paul of Texas said, "Strictly speaking, it probably is not 'necessary' for the federal government to tax anyone directly. It could simply print the money it needs. However, that would be too bold a stroke, for it would then be obvious to all what kind of counterfeiting operation the government is running. The present system combining taxation and inflation is akin to watering the milk: too much water and the people catch on."

There you have it from a congressman! Taxation is used to get some of the "water" out of the "system" so that we won't "catch on" that government takes everything they want from us without compensation in total violation of the 5th amendment. Legal tender laws compel us to accept their "water" and we don't complain because the same laws compel others to accept it from us. Only if we hurry, can we obtain something of value equal to what we surrendered for their illusory, watery "payment." Their "water," like water, cannot flow uphill to its creator as taxes.

It's reasonable to assume that when . ost slaves were black, some slaves were selected to control, indoctrinate, and amuse others. Today, such people are called teachers, preachers, lawyers, judges, CPAs, editors, policemen, revenue agents, actors, and ball players. Other than the judges, it is not likely that any of these know the diabolical purpose they serve. Haven't you ever wondered why actors and ball players are paid so highly? THEY MUST KEEP US DISTRACTED!

When we accept the debt instruments of a private corporation for all that we produce, then through fear of imprisonment, return a graduated percentage of those green papers to the same private citizens who first got them for nothing, if that isn't slavery. WHAT IS? Kublai Kahn did the same trick in the 13th century with strips of imprinted mulberry bark!

To regain our freedom, all legal tender laws must be repealed and 100% redeemable currency must be re-instituted. Government by the producers of wealth can exist only when wealth is used as a medium of exchange and public servants are dependent on being paid with some form of wealth. Inflation is bank credit. BANK CREDIT IS THE CANCER OF CIVILIZATION. Please get understanding. Study the writings of Merrill Jenkins, Monetary Realist. Get a copy of "Money," The Greatest Hoax on Earth.[1] Read it. Ask about his other books such as Everything I Have Was TheIRS.[2] Please distribute copies of this message. 15 copies $2 or 100 copies $9. Do your part. Please get more information. Send $2.00 for tax packet.

Rural America

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NEWS RELEASE

FOR IMMEDIATE RELEASE

DATE OF ISSUE: DECEMBER 6,1984

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- FARMERS' LEGAL RIGHTS TO BE TOPIC OF DECEMBER 15 SEMINAR IN DES MOINES

In response to a growing concern among farmers about foreclosures and forced liquidations a legal seminar will be held on Saturday, December 15 at the Best Western/Starlite Village (formerly the Downtown Ramada Inn) in Des Moines. Sponsored by the Midwest Office of Rural America, a non-profit rural advocacy group, the Seminar will concentrate on the legal rights of farmers who are borrowers of local Production Credit Associations and Federal Land Bank Associations. Together the PCA's and FLB's make up what is known as the Farm Credit System, a Federally chartered cooperative lending institution [redacted] "Our goal is to encourage constructive change within the Farm Credit System, and to bring about greater farmer participation and a better organization," said Daniel Levitas, farm organizer with Rural America.

[redacted] Seminar organizer and research assistant with Rural America's Midwest Office in Des Moines. "We are receiving more and more calls daily on the

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Farm Survival Hotline. A significant number of those calls have involved PCA and FLB borrowers. "It is clear that Iowa farmers would benefit from gaining more information about their legal rights and alternatives to foreclosure and bankruptcy," Lundgren explained.

Leading the day long session will be [redacted] former corporate secretary and legal counsel for the Federal Intermediate Credit Bank of St. Paul, Minnesota. Mr. [redacted] recently left his job of 15 years within the Farm Credit System and has now devoted his time fully to preserving the family farm. "It is imperative that farmers have all the tools to negotiate with their local PCA and Federal Land Bank," Corum stated in a recent interview. "Farmers must know how the Farm Credit System works and how they can make it work for them," he said.

The Seminar is open to both farmers and attorneys. Those lawyers who engage in litigation on behalf of the Farm Credit System, or other creditors, will be asked not to attend. Fees for the Seminar are as follows: Individual farmers, $35; Farm Couples, $50; Attorneys, $75. The Seminar will begin at 10:30 AM and continue until late evening. The Best Western/Starlite Village located behind Vets Auditorium on 3d avenue, south of I-235 near downtown Des Moines. Those having questions about the Seminar should call the Rural America office at 515/244-5671.

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FEDERAL FARM CREDIT BOARD STATEMENT ON LENDING UNDER STRESS CONDITIONS - FEB. 1983

"RECOGNIZING THE CURRENT PLIGHT OF THE NATION'S FARMERS IN WHICH THEY HAVE EXPERIENCED DECLINING PRICES IN THE FACE OF MOUNTING OPERATING COSTS, THE FEDERAL FARM CREDIT BOARD PLEDGES THE FULLEST SUPPORT OF THE COOPERATIVE FARM CREDIT SYSTEM IN DOING WHAT IT CAN TO ASSIST HARD-PRESSED MEMBER-BORROWERS WHILE CONTINUING TO CARRY OUT THE INTENT OF CONGRESS BY MAINTAINING A VIABLE CREDIT DELIVERY SYSTEM. THE FEDERAL FARM CREDIT [illegible] REAFFIRMS [illegible] LONG-STANDING POLICY OF FORBEARANCE -- THAT IS, STICKING WITH A BORROWER SO LONG AS THERE APPEARS TO BE A REASONABLE POSSIBILITY FOR HIM TO WORK OUT OF FINANCIAL DIFFICULTIES AND RE-ESTABLISH A FULLY VIABLE FARM BUSINESS. IN DOING SO, SYSTEM INSTITUTIONS MUST BE PREPARED TO REQUIRE THAT ADJUSTMENTS BE MADE OR DISCIPLINES EXERCISED TO HELP ASSURE THE BORROWER'S ULTIMATE RECOVERY. FORECLOSURE OR [illegible] SUCH DRASTIC ACTION IS TO BE AVOIDED UNLESS AND UNTIL THERE IS NO REASONABLE ALTERNATIVE COURSE OF ACTION REMAINING. IN CARRYING OUT THIS POLICY, STRONG EMPHASIS MUST BE PLACED ON APPROPRIATE LOAN SERVICING THAT WILL BENEFIT THE BORROWERS WHO ARE COOPERATIVE AND MAKING AN HONEST EFFORT TO MEET THE CONDITIONS OF THE LOAN CONTRACT. IT IS RECONGNIZED FURTHER BY THE BOARD THAT THE DESIRE TO STAY WITH FARMERS IN DIFFICULTY MUST BE BALANCED AGAINST THE NEED TO MAINTAIN THE GOOD REPUTATION FARM CREDIT SECURITIES HAVE IN THE FINANCIAL MARKET, THEREBY ASSURING THE SYSTEM'S ABILITY TO RAISE LOAN FUNDS. SINCE THE FARM CREDIT SYSTEM IS A PRIVATELY-OWNED INSTITUTION, IT HAS AN OBLIGATION TO ALL THE FARMERS WHO OWN IT TO RUN A SOUND BUSINESS AND NOT PUT SOME BORROWERS IN A POSITION OF SUBSIDIZING DEFAULTING BORROWERS AS A RESULT OF EXCESSIVE INTEREST AND LOAN LOSSES.

THUS, THE FEDERAL FARM CREDIT BOARD RECOGNIZES ITS OBLIGATION TO PROTECT THE INTEREST OF THE SYSTEM BORROWERS -- BOTH PRESENT AND FUTURE -- AS WELL AS THE INTEREST OF INVESTORS UPON WHOM THE SYSTEM DEPENDS FOR LOANABLE FUNDS."

4) MR. CHAIRMAN, I WOULD LIKE TO ASK MR. LARRY EDWARDS, DEPUTY GOVERNOR FOR SUPERVISION, TO TAKE ON THE ROLE OF A LOAN OFFICER AND DISCUSS THAT ROLE IN MORE DETAIL SO THAT YOU WILL ACTUALLY KNOW WHAT IS POSSIBLE BETWEEN THAT FARM CREDIT INSTITUTION AND THAT BORROWER. LARRY, PLEASE?

MR. EDWARDS: THE FIRST THING THAT THE LOAN OFFICER WANTS TO DO IS TO GET FROM THE BORROWER HIS CURRENT FINANCIAL CONDITION, WHAT HIS BUSINESS PLANS ARE AND HOW THOSE PLANS FIT WITH HIS FINANCIAL CONDITION. WITH THAT IN FRONT OF HIM AND THE BORROWER'S CREDIT RATING IN FRONT OF HIM, THE LOAN OFFICER HAS THE ABILITY TO GRANT FORBEARANCE, TO DELAY OR WAIVE PAYMENTS OF PRINCIPAL AND INTEREST, TO RESTRUCTURE THE LOAN, TO SPREAD OUT THE MATURITY AND THEREBY LOWER PAYMENTS.

IF NONE OF THOSE OPTIONS CAN WORK, THE LOAN OFFICER LOOKS AT WHAT THE POSSIBILITIES ARE FOR SHIFTING IT TO THE LAND BANK SYSTEM OR AN INSURANCE COMPANY, TO AGAIN SPREAD OUT PAYMENTS AND TO HAVE SO MUCH COME DUE IN A SINGLE YEAR. IF THAT DOES NOT WORK, HE LOOKS AT THE ASSETS THAT THE BORROWER HAS THAT COULD BE SOLD THAT ARE NOT AS PRODUCTIVE AS THEY SHOULD BE -- HOPING TO REDUCE THE BORROWER'S DEBT BURDEN TO A MANAGEABLE LEVEL THAT WAY.

IF THERE IS NO OPPORTUNITY TO DO THAT, THE LOAN OFFICER HAS THE AUTHORITY AND DOES WORK WITH THE FARMERS HOME ADMINISTRATION AND OTHER CREDITORS IN AN ATTEMPT TO FIND OTHER FINANCING FOR THAT BORROWER.

239

THE LOST, STARVING, "ENTITLED" HUNTER

BY TOM ANDERSON

A columnist reported recently: "Like revenue-sharing, a federal takeover of welfare costs would mean major financial relief for states and countries."

[illegible] of [illegible] Federalized welfare, like federalized anything, costs more, not less. No government, federal, state or local, has any money except what it confiscates from the people. Welfare, like virtually everything else, should be bought, run and paid for at home. The goal of the federalists is to do away with state welfare. And later, to do away with the states.

Government has nothing to give except what it takes from the people. For government to give people who prefer to loaf rather than work, a part of the workers' reward, forces the worker into involuntary servitude. And that is just a fancy term for slavery.

We who actively oppose the deliberate bipartisan destruction of our Republic, our Capitalistic system and our freedom are smeared as impractical perfectionists who expect too much. Like the estranged wife who explained the unreasonable demands of her absent husband like this: "It all started with him wanting to be in the wedding pictures."

When I listened to politicians talk about what they lassoed for their constituents from the government range, I think of Teddy Roosevelt. Teddy was visiting one of his ranches at roundup time when one of his cowboys proudly showed him a corral which he had filled with stray calves upon which he had placed the Roosevelt brand. The law of the range was that to brand a stray whose ownership is unknown vests title in the brander. But Teddy could see that unless the laws of genetics had been repealed (and at that time the Supreme Court had not done so), at least half the calves weren't from his herds.

The Roughrider gritted his formidable teeth and roared, "you're fired!"

"Fired? How come?" Answered the incredulous cowboy.

"For stealing," Roosevelt replied.

"The man who will steal for me will steal from me."

Hundreds of Congressmen and Senators are now reminding their constituents: "Look at the "entitlements" I got for you!"

That's so-called "Federal Aid." "Somebody else" paid for it. These crooks steal billions from the taxpayers every year, telling the voters "somebody else" paid for it. In most cases the voters would not have been willing to pay "their own" money for it.

The mass "news" media hasn't mentioned it, to my knowledge, but the Pentagon (normally extremely wasteful) wants to close a number of army bases which are no longer needed. But the Congressmen and Senators involved won't permit it because of the jobs and federal money their areas would lose.

The "liberals," as we all know, are all for cutting Defense spending (and nothing else). Actually the "liberal" Congressmen and Senators put $4.6 billion in the Defence budget not to buy security but to buy votes. The Pentagon didn't ask for it, doesn't need it and doesn't want it. The legislators who voted for this unconscionable steal are "entitled" to be defeated.

Federal Aid is a gigantic fraud in which the local resident sends his dollar to Washington where the bureaucrats and other leeches devour thirty-five cents back as a gift to buy something which probably wasn't needed in the first place. Federal Aid is a major reason we're on the road to bankruptcy, depression, wild inflation, repudiation, and authoritarianism.

Once a hunter and his dog were lost in a deep forest. Finally, in desperation the starving hunter whacked off his dog's tail and put it on the fire to boil. When he was through chewing on it, he tossed the bones to the whimpering dog who devoured the remains, and then licked his master's hand in gratitude.

That's the story of Federal Aid. The hunter is Uncle Sam. The grateful dog is us. Dogs can live without tails. But the crooked hunter is still famished – and lost.

This article was excerpted from the STRAIGHT TALK newsletter ($47 a year), P. O. Box 60, Pigeon Forge, TN 37863.

been passed and that the Crash of 1984 has already begun.

Although I have attempted to show in this and other letters that obvious public participation in stock speculation is not always evident at Supercycle peaks, there is typically a state of public optimism, bordering on euphoria. Whether they actively speculate or not, most people at Supercycle peaks become abnormally absorbed in economic and financial affairs. As Galbraith summed it up in his book *The Great Crash*, by late 1929, "the New York stock market [illegible] dominated the news, it dominated the entire culture. Even those who had never bought a share of stock read the financial news with the kind of passionate intensity that was previously reserved for sports and scandal.

The portraits of bankers, business leaders and big-time speculators appeared on the covers of *TIME* and other popular journals during the summer and fall of 1929, and money and financial affairs replaced abstract art, Freud and the latest novels of F. Scott Fitzgerald [illegible] Ernest Hemingway as the principal topics for conversation [illegible] upper middle class cocktail parties.

Exactly the same phenomenon was noted during the decade prior to the Panic of 1873, which was satirized as the "Gilded Age" by Mark Twain. From the end of the Civil War to the beginning of the panic, the bizarre careers of the "Robber Barons" of Wall Street, Jay Gould, Jim Fiske, Cornelius Vanderbilt, Russell Sage and others, were avidly followed by the public through the lurid accounts of financial manipulations and scandals that appeared almost daily in the New York press.

Now once again, money, speculation and financial affairs have become the dominant theme in American culture. And this trend began, right on schedule, after the Vietnam War and has continued to grow in intensity. But we are now, I think at the absolute peak of the financial mania of our generation. I just heard that our local school boards are seriously considering the introduction of economics courses in the grade schools. What will they want to do next, teach options trading in high school?

Other signs of the end of the financial era of our time include a 50 percent increase in the number of advisory newsletters, the escalating expansion of the number of new options and new futures contracts – and the growing indifference of the general public to both. But perhaps the most obvious clue was the cover of *TIME* magazine for September 24, which featured only a great, bold, I LOVE U.S. The cover story goes on to describe America's current "upbeat mood", which, the writers make clear, has become almost euphoric.

Now there is nothing wrong with liking the U.S., or even loving it. The danger arises when there is an ever-widening gap between perception and reality. The present near-euphoric mood is creating an unwarranted complacency, which will make the crash and depression of 1984 – 87 all the more devastating because it will be so totally unexpected. The current euphoric complacency, far from being a sign of strength, is a sign of dangerous weakness.

When America first entered World War II, we suffered a series of disastrous defeats. The Pacific Fleet was almost destroyed at Pearl Harbor, the Philippines were lost, all of our Pacific bases west of Hawaii were overrun in a matter of days and German U-boats torpedoed U.S. merchant ships with impunity in our coastal waters. We were, in short, the classic victims of excessive optimism and complacency. Only when we accepted the fact that we were in a desperate struggle, with our very survival as a free nation at stake, did we begin to turn from defeats to victories.

Similarly, the euphoric mood of 1929 was perhaps more destructive than the stock speculation mania itself, as it left almost everyone, the public, business and government, totally unprepared for the disasters that were to follow. And being unprepared led to hastily improvised counter measures that often did more harm than good. This is why contrary opinion works so well. When one is concerned and apprehensive about the future, there is an incentive to plan carefully, to avoid unnecessary risks and to prepare for those problems and risks that can't be avoided.

Excessive optimism, on the other hand, makes one careless, overconfident and ill prepared for trouble. That is why the *TIME* report that the crowd has become "bullish on America" is not good news, but bad news. Particularly as the realities of today and tomorrow are anything but optimistic. For example, the Comptroller of the Currency now admits that the Continental Illinois Bank, "for all practical purposes" may be assumed to have failed. The rescue plan was not a bailout, but only an alternative way of guaranteeing insured deposits. The Bank's stockholders, said the Comptroller, could still lose all of their equity, and other creditors, including bondholders, might lose most, if not all, of their claims on Continental.

The total number of U.S. bank failures for 1984 could reach 80, according to current estimates by Federal banking authorities. This means that there could still be at least a dozen more to come between now and the end of the year. Furthermore, says a Congressional Banking Committee staff currently studying the problem, in at least half of the 150 U.S. commercial bank failures that have occurred during the past three years, criminal acts by bank officers were the primary factor. These criminal acts included not only direct embezzlements and kick-back schemes, but falsifying loan documents and making fraudulent or improperly collateralized loans.

This is yet another development to support my contention that the peak of the Supercycle has been passed and that a panic liquidation of the whole financial system is beginning. During the collapse of 1929 – 32, it was found that not only gross incompetence, but corruption on a vast scale had permeated the entire financial system during the boom years of the late 1920's. We are now discovering the same thing to be true of the early 1980's, and this period of such discoveries could be just beginning.

And finally, to those still waiting for the public to begin speculating in NY stocks, I can only ask, "where have you been during the past ten years?" For the past decade, the U.S. public has been speculating frantically in everything but tulip bulbs. So far there have been speculative blowoffs in gold, silver, houses, diamonds, race horses, various "collectibles", commodities, futures, listed stock options, strategic metals, energy stocks, high-tech stocks, farm land, oil and gas leases, and now the latest craze, options on futures.

The decade of speculation is not about to begin, it is about to end. The public has become psychologically exhausted by the speculative binges of the past ten years. Ask any stock or commodities broker how much public business they are getting now. During the August rally, for example, public (non-professional) trading was almost nonexistent, despite the huge volume. The "investment industry" is not heading for a new boom, but for a huge shakeout.

This article was excerpted from the October 1984 issue of Donald J. Hoppe Analysis newsletter ($125 a year), P. O. Box 977, Crystal Lake, IL 60014.

HOW'S THAT AGAIN, MR. ADVISOR?

BY JAMES L. GREEN
PROFESSOR EMERITUS OF ECONOMICS – UNIV. OF GA

When your physician advises, "You have, at best, six months to live", listen up. He is not always right, but insofar as medicine is a science rather than an art, the trained and skilled physician's ability to forecast is quite good. (There is, however, sufficient room for doubt for you to request a second opinion.)

On the other hand, economists and financial advisors practice an art. Judgments are based on more tenuous data subject to more varied interpretation. You are on solid ground when you ask, "How's that again, Mr. Advisor?"

In a free, enterprising market the economist and financial specialist base their analyses on established principles, relationships and human actions and reactions to various stimuli. Judgments and forecasts tend to be quite sound. However, we no longer have free enterprising markets in which participants are "free to choose" and move markets. In a money managed economy, government through its massive and excessive taxing, spending and regulatory powers, overrides market forces, at least for a time. Economists must, then, understand politics and political philosophies as well as economic principles. We live in an era of Political Economy.

In all conditions the government is, through its policies and actions, building a "Debtors' Prison" for the American people. The federal debt first reached $100 billion in 1942. In the next 42 years the debt exploded by 15½ times to $1.8 trillion. Under extant tax and monetary policies total public and private debt is approaching $7 trillion. Net interest payments on the federal debt quintupled from $21 billion in 1974 to $111 billion this year, just ten years later. Projections place interest costs for the federal government at $214 billion, almost doubling, by 1989. Remember, government interest payments are really "transfer payments" taken from one pocket through taxes and placed in another's pocket through expenditures.

How's that again, Mr. Advisor? Will the government ever pay off its debt? No, but don't worry, debt provides you a continuing flow of income. But I don't own anything except an obligation and a promise to pay. That's right, but the government's power to tax is unlimited as is the Federal Reserve Bank's power to create new money to meet government's obligations. The debt can be rolled-over indefinitely.

But Mr. Advisor, isn't it basic in economic law that debt must be repaid at some point? Well yes, but governments have always done this through new money creation and hyperinflation. How's that again, Mr. Advisor? Won't hyperinflation destroy the purchasing power of my income flow and leave me with nothing at all? Well yes, but that can never happen. Government securities are your safest and most liquid investment vehicle. How's that again, Mr. Advisor, are bankers and money managers that omniscient? Are not banks, corporations, and even nations now overburdened with debt and facing bankruptcy and default? Is the debt burden we have accumulated worldwide really manageable? Well, yes and no. The debt is being rescheduled over longer periods. The Federal Reserve has said that large banks will not be allowed to fail. But, Mr. Advisor, isn't it reality that letting over-extended banks and nations go bankrupt risks deflation and bailing them out risks hyperinflation? Isn't it true that virtually all financial markets and debt-instrument investments depend heavily on interest rates? Isn't it true that interest payments are taking a larger and larger portion of income flows of corporations, governments and households? Tell me again, Mr. Advisor, tell me my savings and investments are safe.

Well, I can't assure your financial safety. Life is full of risk. However, let the good times roll. Consumers borrowed $10 billion in June and $7 billion more in July beyond their income so they could spend and enjoy the goodies of life. Governments are borrowing and spending $200 billion more than their revenues so they can spend more for collective goodies. As we all know we cannot go on living on borrowed money forever, so enjoy it while you can.

How's that again, Mr. Advisor? It's my savings you are talking about.

Mr. Green's address is 8874 Burning Tree Road, Pensacola, FL 32514.

THE FINAL ACT – A SUPER TRAP

BY DONALD J. HOPPE

Now that Ronald Wilson Reagan has been reelected (to no one's surprise) President of the United States, the final act of a Supercycle bull market and long-wave economic expansion that began some 35 years ago can be completed. To be specific, this Supercycle started at the post-World War II exhaustion trough in 1949. In that year, Western Europe and Japan, which had required massive U.S. aid just to keep them from total collapse during the first three postwar years, began an economic and political recovery that would later be described as miraculous.

In the U.S., the turning point came in June of 1949, on a day when the total trading volume on the New York stock exchange reached a 40 year low of only 850,000 shares. Almost no one was interested in stocks in 1949, or indeed in any sort of speculation. Top grade long term bonds were considered the only prudent investment, even though they yielded less than 4 percent. Behind this extreme financial caution was a widespread conviction that a severe and prolonged depression was imminent.

President Harry Truman was warned by both labor leaders and top business executives not to repeat the mistakes of Herbert Hoover, and the comment that, "1949 could be another 1929," was heard with increasing frequency. But 1949, of course, was definitely not the equivalent of 1929. Quite the contrary, it was the starting point for the greatest bull market and economic expansion in world history. The widely anticipated postwar depression not only failed to arrive, but the complex and difficult transition from war to peace in the U.S. was accomplished with nothing worse than the mild recession of 1948–49.

Nevertheless, the New York stock market, reflecting the fears and anxiety of the early postwar years, reached a historically undervalued low in June of 1949 amidst an almost total lack of interest in speculation. If there were any cycle theorists around at that time, they would have known that the 1949 low, which occurred 53 years after the prior long-wave low in 1896 and 17 years after the Great Depression low of 1932 was actually one of the greatest investment opportunities in history.

But having made an extensive search of the financial literature of that time (and also having lived through the period) I could not find anyone who understood the significance of 1949 in terms of cycle analysis. There were a few who were inclined to be bullish from a contrary opinion point of view, but even this small but astute minority did not comprehend that both the economy and the New York stock market were beginning a 34-year, long-wave expansion. Professional and academic economists were almost unanimously predicting a depression for the 1950's, and the great majority of investment advisors and Wall Street brokers were solidly bearish.

Yet cycle analysis alone would have correctly identified 1949 as a probable long-wave low. As noted, it occurred 53 years after the prior long-wave trough in 1896, thus falling within the 53–56 year range for this cycle. It also came 20 years after the Supercycle high of 1929, putting it within one year of the "ideal" long-wave correction period (based on fibonacci) of 21 years. The ideal long wave consists of a 34 year expansion, followed by a 21 year correction, totaling 55 years. And 21, 34 and 55 are all fibonacci numbers. The fibonacci series is a well-known mathematical concept (dating back to the late Middle Ages) in which each number in the series represents the total of the prior two numbers.

Therefore, 1 plus 1 equals 2, and 2 plus 1 equals 3, and 3 plus 2 equals five, etc. The complete fibonacci series is counted from one to 144 in the following manner: 1, 2, 3, 5, 8, 13, 21, 34, 55 89 and 144. (Fibonacci numbers above 144 do not appear to have any significance with regard to the behavior of financial indexes or stock prices.) Ralph N. Elliott considered the fibonacci series to be central to his wave theory (which he subtitled, "Nature's Law"), because patterns and geometric forms based on fibonacci numbers and relationships are common in natural phenomena. The higher fibonacci numbers, 34, 55, 89 and 144 are also found in certain basic astronomic movements.

In any case, it is my contention that fibonacci numbers and patterns are also a central element in traditional cycle analysis, which is why I consider the "ideal" long wave to be 55 years, with an expanding phase of 34 years and a contracting or, more accurately, a correcting phase of 21 years. The correction phase can take the form of a large triangle or "flat", as well as a continuing downtrend, and the correction of 1929 – 1949 was actually a large triangle with three reversals of diminishing intensity, beginning with the Crash of 1929 – 32 and ending at the postwar low in 1949.

The number 17, I also find significant in cycle analysis, because it is one-half of the key fibonacci number 34, and it was 17 years from the 1932 low to the 1949 low. But cycle analysis only indicates where major turning points are likely. To confirm a cycle high or low, one must have other evidence. There was, however, an abundance of such evidence at the long-wave low in 1949. The most obvious thing, of course, was the extremely low volume on the NYSE and the almost total lack of interest in speculation. There was also the widespread fear that a new depression was imminent, and finally, there was an extremely high level of financial liquidity.

U.S. corporations in 1949 had, for example, an average of $1.20 in short-term assets for every $1.00 of short-term liabilities, while U.S. banks could cover 83 percent of their deposit liabilities with short-term assets equal to ready cash. Never before (or since) had the American financial system been in such a position of strength. In retrospect, it appears to have been almost irrational to have expected a depression under such circumstances, especially in the light of the enormous pent-up demand for both consumer and capital goods resulting from wartime deprivations. (Shortages of even basic items continued into 1948, as industries struggled to convert from wartime to peacetime production.) Nevertheless, such irrationality was then the accepted wisdom.

The foregoing comment was intended to establish beyond a reasonable doubt that 1949 was indeed the prior long-wave low, because a 34 year expansion period from June of 1949 brings us to June of 1983, which was exactly when the broadest stock averages, such as the NASDQ Composite (OTC stocks), the Value Line Index (all NYSE stocks) and the ASE Index made their all-time highs. And I must point out that those broad stock averages are now still well below their June 1983 highs. The NYSE Advance/Decline Line (all stocks) also topped out in June of 1983 and is now well below its 1983 high.

Consequently, I am quite confident that regardless of what might happen to the DJIA or the S & P 500 during the next few months, the broader averages, which represent the great majority of U.S. stocks, have already seen their highs for this Supercycle, and the June 1983 highs for these averages and the A/D line will not be exceeded. Therefore, I think my cycle projection calling for a Supercycle high in 1984 has already been confirmed by the actions of NY stocks.

As far as the NYSE Index, the S & P 500 and the DJIA are concerned, I think the topping process that began in June of 1983 is still unfolding, but is getting close to completion. The S & P 500 appears to be making a giant double top, as it churns back into the 1983 peak area on massive volume. The same thing could be said of the NYSE Index. I will discuss the DJIA as well as the near term outlook for the other popular averages in my stock section, but let me note here that a short-term breakout for the DJIA above 1250 could lead to a test of the June 1983 high of 1290 and even give this Average enough momentum to make a marginal new all-time high.

But I would regard any such last fling by the DJIA as a most dangerous trap, as I am almost certain that the great majority of stocks would not follow, and the move itself, accompanied by massive volume, would simply be a cover for the further distribution of the large capitalization stocks. Some of my colleagues, who agree with my thesis that we are at or near the top of a Supercycle, still think that the NY market will make one more explosive advance into the spring of 1985, which will carry the DJIA and the S & P 500 to new all time highs before a primary bear market begins.

At this point I really don't see that happening, as a lot of longs, trapped since the 1983 highs, are still waiting desperately to get off the hook. I just don't think the market will be that obliging. Nevertheless, such a runup appears technically possible at this point, so I can't guarantee that it won't happen. All I can do is warn you again that such an advance would be a super trap.

The DJH Cycle Chart identified 1984 as the most probable high for this Supercycle, based on a 55 year interval from 1929. But I concede that a 56 year interval is also possible, even though it does appear unlikely now. In any case, we have an abundance of other evidence to confirm that we have made, or are still in the process of making, a Supercycle top, as conditions now are exactly the reverse of what they were in 1949.

Then NYSE volume had fallen to a 40 year low and there was absolutely no interest in speculation. Now volume is breaking all-time records and our whole society is being consumed by a mindless passion for gambling and speculation. Subscribers have sent me clippings to remind me of the current popularity of state sponsored lotteries. When the payoff is large, people spend all night standing in line to buy lottery tickets and sometimes spend hundreds of dollars for such tickets, even though the odds against winning are astronomical.

Only a few years ago such lotteries, when sponsored by private enterprise, were called "numbers rackets", and considered a criminal activity. Now, the same states which put those running numbers games in jail whenever they caught them have apparently decided that crime does pay after all, and have gotten into the business themselves. For the more affluent, options and futures can provide the same kind of thrill offered the lottery player, with generally the same result.

Also, in 1949 there was widespread fear of depression. Now there is not only a universal conviction that a depression will never be permitted by the Fed, but there is an almost hysterical belief that Ronald Reagan will lead us all to a great new era of unprecedented prosperity. Four more years, the crowd chants, four more years. But unfortunately dear readers, while Ronald Reagan might have been Calvin Coolidge in his first term, he will be Herbert Hoover in his second.

Calvin Coolidge, elected in 1924, was the conservative's conservative – a taciturn Yankee from Vermont, who believed implicitly that, "the business of America is business". The Coolidge Administration cut taxes and adopted an openly pro-business policy. It is understandable, therefore, that the Republican conservatives were quite willing to take credit for the roaring "New Era" boom that accompanied the Coolidge years between 1924 and 1928.

But in 1928, Coolidge, who could have been reelected in a landslide, decided (for reasons known only to himself) to quit while he was ahead. "I do not choose to run," said Coolidge without further explanation, and that was that. There has been much speculation over the years that "Silent Cal" knew what was coming, and his wife, Grace, once admitted as much to a reporter in a moment of indiscretion. In any case, Coolidge was succeeded by his Secretary of Commerce, Herbert Hoover, another staunch, pro-business conservative who could be counted on to deliver four more years of prosperity.

182

It is hard to realize it now, but Herbert Hoover, upon his election in 1928, was one of the most admired and respected men in America. He was a professional engineer and an astute businessman who made himself a millionaire before the age of 30, a scholar who translated Latin texts into English and a humanitarian who managed American food relief programs during World War I and was credited with saving millions from starvation. In short, Herbert Hoover, to most Americans in 1928, represented the epitome of Americanism. He was a self-made man, a "rugged individual" who rose from modest circumstances to the highest levels of wealth, prominence and achievement. His speeches were more like sermons, and he preached the old fashioned virtues of thrift, hard work and patriotism.

All Americans had to do, said Hoover, was to work hard, save money and believe in America and their continued greatness and prosperity would be assured. He was elected in a landslide, carrying 40 out of 48 states. But something went wrong; only seven months after his inauguration the worst financial and economic collapse in modern history began. Although Hoover introduced several governmental innovations that later became part of the New Deal, he was unable to halt the decline. Hoover ran for reelection in 1932, but with unemployment approaching 25 percent his defeat was certain, and his reputation was so badly damaged that despite subsequent government service during World War II and after, it was never fully restored.

Ronald Reagan was elected to his first term in 1980, fifty-six years after Calvin Coolidge, and philosophically at least, he was (and is) the most conservative American president since the Coolidge—Hoover era. Like Coolidge he reduced taxes and conducted a pro-business administration. And like Coolidge, he represented, to the majority of Americans, a return to traditional American values.

It was no accident, I think, that in both the Coolidge years and the Reagan first term there was a strong element of religious revivalism. During the Coolidge era, for example, the now famous "monkey trial" took place in Tennessee, in which a young science teacher, John T. Scopes, was charged with violating a state law that prohibited the teaching of biological evolution in the public schools.

The case attracted nationwide attention as a contest between religious fundamentalism and modernism. The late 1920's also saw the rise to national prominence of fundamentalist preachers, such as Aimee Semple McPherson (Sister Aimee) and William Ashley "Billy" Sunday, who adroitly used the new innovation of radio broadcasting to attract a huge following, which gave them, indirectly at least, significant political power and influence.

During the Reagan era we have seen a new generation of TV evangelists, such as the Rev. Jerry Falwell, rise to national prominence and influence. Now I would never be so rash as to enter into any kind of theological dispute in these letters or render any opinion on religious matters. I just want to point out that it has all happened before, and that the rise in religious fundamentalism during the Reagan years is almost an exact repetition of what happened during the Coolidge—Hoover New Era.

I said years ago that when the Supercycle peak actually arrived, the American people would be in such a euphoric state that they would be almost totally blind to what was actually happening. That time has arrived. The landslide election of Ronald Reagan to a second term is a final confirmation of the Supercycle peak. In his campaign speeches in 1928, Herbert Hoover told the American people that the complete abolition of poverty in the world was not only possible but inevitable; it was simply a matter of good management, which his business-oriented administration would provide.

Such a statement was, of course, preposterous at a time when 60 percent of American families earned less than $2,000 per year and one-third of them didn't even have running water or electricity. But the euphoria of the New Era was so great that all kinds of preposterous ideas were readily accepted as gospel truths. Now, Ronald Reagan has promised low interest rates, zero inflation and a booming economy, without any tax increases and without any reductions in social security, medicare, government pensions or any other federally financed benefits. And at the same time he promises to build up the military to invincible strength and construct a "Star Wars" defense system that will provide a 100 percent guarantee against a Soviet missile attack.

And despite the fact that these promises are preposterous in the light of current fiscal and financial realities, they are eagerly accepted by a public that simply wants to believe. Mr. Mondale, by the way, showed a total lack of political sensitivity when he based his campaign on the problems of our time. In its present state of euphoria, the American public does not want to hear about problems; it wants to be left alone for a while longer to enjoy its fantasies of a world where all problems can be solved simply by having the right moral attitude and the right economic theory. How much longer will the current euphoria last? Well, Hoover got 10 months after his election, but I don't think President Reagan will be so lucky – the collapse of Reaganomics should be obvious by next April.

This article was excerpted from Mr. Hoppe's November 1984 Analysis newsletter ($125 a year), P. O. Box 977, Crystal Lake, IL 60014.

PUBLISHER'S NOTE.

I received Mr. Hoppe's November newsletter just three days before this issue was to go on the press and although I printed Mr. Hoppe's article titled the "Crash of 1984 Has Already Begun" in the first few pages, I decided to print this one too simply because I don't think his words should go unheeded. Since he and Julian Snyder are both saying the same thing you might want to seriously consider their words and I think they are right on target especially after the head of the democratic party stated on TV the day after the election "the chickens will now come home to roost".

Could it be that the democrat power brokers knew what was coming and let Mondale run knowing he was certain to lose? Then in 1988 the democrats would take power and that would be the end of the republican party . . . and we would have a one party system like Mexico. Give it some thought over your morning cornflakes.

In closing I might add that I fully realize many readers will consider this magazine a "gloom and doom" publication because of the articles I chose for this issue, but I can only say this as I told the attendees at the "Los Angeles '84" conference in November "If you are in the stock market you are out of your cotton pickin' minds." With that I'll stop running off at the mouth except for my column titled "Readers" that follows.

Robert White – Publisher

MUST CHRISTIANS BE IN SUBJECTION TO ANTI-GOD GOVERNMENT?

BY RICHARD B. SHOFF

The Russian Baptist listened intently as an interpreter conveyed a question put to him by a small group of Americans. As soon as he grasped the intent of the question, the Russian sprang to his feet and replied rapidly in his native language. The Americans leaned forward in rapt attention, trying vainly to perceive some clue as to his answer.

This happened at an unspecified location in Switzerland. The Russian, who has spent six years in a Siberian concentration camp for the "crime" of printing and distributing portions of the Bible, had sneaked out of his country to meet with the American Christians.

The Americans had just asked the man from Russia this provocative question: "How do you Russian Christians interpret the meaning of Romans 13:1, which declares that 'the powers that be' (governmental authorities) are ordained of God, and that the Christian citizen is to be in subjection to them?"

The interpreter then conveyed the answer of the Russian: "I'll tell you how every true Christian in Russia understands Romans 13.1. We understand this Biblical passage to say, consistently with all Scripture, that the governmental authority has been ordained of God to do the will of God. But, when the government denies the existence of God and persecutes the people of God, it is not of God but of the Devil!"

The Russian was saying, in no uncertain terms, that Christians are not obligated to obey those decrees of government which are anti-God – especially those which would interfere with Christian ministry. I agree, and that's what I want to emphasize as we focus on Romans 13:1–7 in this article.

SPHERE OF GOVERNMENT

The key to a proper understanding of this passage is to notice its clear statement that the sphere of government is limited to (a) the restraint of evil, and (b) the praise of good. This two-fold function of God-ordained government is declared in Verses 3 and 4.

"For the rulers are not a terror to good works, but to the evil. Wilt thou, then, not be afraid of the power? Do that which is good, and thou shalt have praise of the same. For he (the governmental authority) is the minister of God to thee for good. But if thou do that which is evil, be afraid; for he beareth not the sword in vain, for he is the minister of God, and avenger to execute wrath upon him that doeth evil."

All too frequently, Christians rip the first verse of this chapter out of its context and declare it to be an absolute command, regardless of circumstances. For example, a number of self-professed Christians descended on Pastor Everett Sileven, Faith Baptist Church, and the "Nebraska Seven" like vultures on a carcass, using Romans 13 as their proof-text. These critics maintained that this passage required Sileven and his people at Louisville to lie down meekly in the face of state tyranny and to allow the state to take over control of the educational ministry of the church.

One pious sounding brother wrote from Lincoln, Nebraska, challenging "the whole congregation" at Faith Baptist Church to "read in unison Romans 13:1–7," and to be reminded that it, too, is God's Word!

Another fellow wrote from Michigan, addressing his letter to a friend of Faith Baptist Church, and charging that Pastor Sileven and the people of the church "appear to advocate civil disobedience," which is "in direct conflict with what Paul teaches in Romans 13 concerning our relationship of our government."

THE "HIGHER POWER"

Let's look at these criticisms. The "higher powers" mentioned in Romans 13:1 are, in a constitutional system such as ours, those which rule in harmony with our U.S. Constitution. Obviously, the Constitution defines the structure of our government and places strict limits on the powers of state and federal authorities.

A moment's reflection will lead any thoughtful person to see that it is impossible to be subject, at the same time, both to the authorities who uphold the Constitution and those who violate it. Such authorities are at opposite poles. Obedience to the U.S. and Nebraska Constitutions, which are, in effect, the God-ordained "powers that be" (Romans 13:1), involves disobedience of those who would deny us our constitutional rights.

It cannot be both ways. To "be subject" to spurious and criminal "authorities," who trample God-ordained constitutional freedoms, is to aid them in the execution of their crimes, to bolster their tyrannical regimes, and to share responsibility for their persecution and plunder of the people of God. That is the work of the Devil, and Christians should have no part in it.

God does not ordain human authorities to fight Him and His righteous cause. The particular function of these "powers" is to be a "terror" to "the evil" (Verse 3). We are told very specifically that they are "not a terror to good works."

This same revelation is strengthened in Verse 4, which features the conclusive statement that the governmental authority is " . . . the minister of God, an avenger to execute wrath upon him that doeth evil."

In the Louisville situation, Pastor Siloven and his people have done no evil. They have committed no crime. Instead, they have done good by providing a very successful, God-centered, educational ministry for children and youth.

According to Romans 13:3, the "powers," or governmental authorities, are "not a terror to good works." If the Nebraska authorities were ordained by God, they would not be persecuting a pastor and church for the performance of good works.

TYRANT SYSTEM

The tyrant system of Nebraska, which jails pastors, persecutes Christians and breaks up families and church educational ministries, is not ordained of God. It is satanic; therefore, Christians do not owe it their allegiance in those areas in which it exerts tyrannical authority.

Instead, Christians owe the tyrant system their unflinching opposition in the form of a continuing commitment to the service of Christ, in total disregard for "laws" and "regulations" which actually punish and suppress good while praising that which is evil.

The point of Romans 13:1–7 is that the Christian should be in subjection to government in its God-ordained role of judging evil. Neither the Bible nor the Constitution ever ordains government to restrain acts of goodness which are rendered in the performance of Christian ministry.

ABJECT SUBMISSION?

Those professing Christians who scold and hassle us for refusing to retreat in the face of satanic tyranny are quick to remind us that Romans 13:1–7 was written under the Roman tyranny; therefore, it demands abject submission even to the most cruel oppression by government.

That line of interpretation is feeble, reckless and dangerous. According to a seminary classmate of mine, who grew up in Hitler's Germany, the typical Christian of that time simply shrugged off the Nazi tyranny on the basis of a false understanding of Romans 13:1. Asked for their opinion of Hitler, most German Christians of that time would reply, "I'm for Hitler because I know that the powers that be are ordained of God!"

Getting back to the Roman tyranny of the First Century, it needs to be understood that not all features of Roman government were tyrannical. The same is true of the Nebraska government. As I write this article, Pastor Everett Sileven is back in jail for the longest sentence to date – eight months! That jailing is an act of tyranny pure and simple.

But, at the same time, the very same Nebraska government that imposed this stroke of persecution against Brother Sileven also has laws on the books which require that drivers stop at red traffic signals. The Nebraska laws also provide for penalties against those who ignore the traffic signals. Such laws, which are necessary to regulate the flow of traffic and protect life and property, are not tyrannical.

The classic revelation that came from the pen of the Apostle Paul, as recorded in Romans 13:1–7, states a universal principle: The Christian owes the civil government respectful subjection within those spheres in which it judges evil acts and praises good ones. The principle in no way implies an obligation to be in sheepish subjection to civil authorities whenever they intrude into the sphere of spiritual ministry and lord it over the souls of the people of God.

Whether in Rome, Russia or Nebraska, the Romans 13 principle is the same: Be in subjection to any government acting within the sphere of its God-ordained functions. In essence, these God-ordained functions of government are the protection of life, liberty and property. They do not include any regulation of the spiritual ministry of any church.

CHRISTIAN "RIGHTS?"

One critic wrote that Pastor Sileven, and those of us who stood with him, were not acting Scripturally in that matter, because "Christians are slaves of Christ, and slaves have no rights."

That's the kind of sick theology that would sell any nation or civilization down the river. We absolutely do have rights as Christians, and our fundamental right is the right to proclaim the Word of God and engage in our God-given spiritual ministry.

When Peter and the other Apostles were forbidden to do so, they bravely asserted, "We must obey God rather than men" (Acts 5:29). In Nebraska, Pastor Everett Sileven's basic Biblical and Constitutional right to proclaim the Word of God through his church educational ministry is the issue.

Nebraska sought to control that ministry, to specify that only 2% of the library books in Sileven's school could deal with "religion," and to compel the use of "required" books which feature dirty, four-letter words. Brother Sileven and those who stood with him replied, "We must obey God rather than men."

WHO WILL STAND?

The Russian Baptist was correct. Out of the crucible of persecution and torture had come his understanding of the real meaning of Romans 13:1 – "The powers that be are ordained of God to do the Will of God." His interpretive insight was too simple, too profound, to have come from the cloistered halls of the stiff-necked theologians or from the ivory towers of the philosophers.

The question is, how many American citizens of our time will perceive, with that obscure, shabbily-attired Russian from out of the prison wastes of Siberia, that God only ordains governments to do His will; never to contravene His righteous purpose?

How many citizens – even Christian citizens – of this over-fed, undisciplined, self-indulgent nation of ours will agree with the Russian? How many of us would stand as he stood, even to the point of great personal sacrifice and to the very brink of death for God and liberty?

The answer to these questions might well determine the issue of the survival or demise of our Constitutional Republic.

Richard Shoff is president of Yesteryear Log Homes (See back cover ad.) and is a regular contributor. Mr. Shoff's address is P. O. Box 1046, Mooresville, NC 28115. Phone 704-832-0137.

CONTROL DATA CORPORATION

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Jan M. Laitos
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U.S. Senator James Abdnor
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Washington, D.C. 20510

2/20/85

Dear Senator Abdnor,

The pr sent grave situation regarding Rural Economy, along with the immense interest and genuine concern shared by many Americans, does highlight the urgency and need for immediate solutions and actions. As a concerned individual and one who has worked for and with the private sector, Control Data - for ovar 15 years, you deserve to be highly applauded for the much needed bold actions you and your Joint Economic Committee are undertaking on this important matter.

As you know, Control Data has shared your concern regarding the national rural economy for a number of years. As part of this concern, many programs have been developed and implemented over these years and have brought positive results. These programs essentially cover the same facets of rural life and economy that your committee is reviewing.

One factor that helped bring about an effective and productive program was due to its structure, which in most cases, involved a joint or cooperative Public - Private Sector partnership or venture. The feature of public - private and many times, educational sectors jointly contributed to the success.

Your meetings and hearings in Rapid City and South Dakota on rural economy were most timely. Wish you continued success regarding this important problem. We will be most interested in the efforts of your committee and will be looking forward to the results of your findings and recommendations.

During an informal discussion after your meetings with your staff person, Dale Jahr, and per his request, I sent you and Dale copies of some of the Control Data programs that relate to Rural Economy. These included Community Enterprise Program, Job Creation Network, Business Technology Centers, Small Business, Regional Approach to Technology and Trade, Education, Health, et. al.

Good luck on your hearings and the national rural initiative you and your committee will develop.

Keep up the good work,

Cordially

Jan Laitos

Jan Laitos

P.S. Per your request, I agree to be a volunteer of the "Abdnor Task Force on the Rural Economy".

Midwest Technology Development Institute

A PLAN FOR ORGANIZATION

11 February 1985

TABLE OF CONTENTS

INTRODUCTION

Creation of more and better jobs is a paramount economic development objective of the Midwestern states. A wide range of programs and incentives have been established by the various states to address the objective. The states have begun to recognize that technology is a major economic asset and worthy of further development and exploitation to expand employment. This recognition is mirrored in the increased interest in research and development, often reflected in new funding for university programs.

States also recognize the necessity for effective technology transfer to foster economic growth. Technologies, whether developed by individuals, universities, or small and large businesses, represent only a potential contribution to job creation. Without the "transfer" of such technology to the marketplace, this potential remains unrealized.

While the federal government has historically played an important role in basic research in universities and federal laboratories, it is increasingly the states who are taking the lead in the technology development necessary to move that research to the marketplace.

A second area in which states are focusing more attention in their job creation efforts is the promotion of trade with foreign countries. Hand in hand with this must be efforts to develop more productive relationships with respect to the cooperative development of new technology and application of existing technology.

Once again, the federal government has a long history of promoting scientific cooperation between nations but, at the same time, it has failed to provide leadership to spur international cooperation in technology development. The states are well positioned to cooperatively encourage technology development and transfer.

As each of the states undertakes efforts to better understand emerging technologies, their potential for economic development, and how such assets can contribute to improved international trade, it is appropriate for them to seek ways to support and learn from each other.

This document describes the establishment of a Midwest Technology Development Institute to develop and administer a set of programs designed to implement the interest of the states in technology development and trade. The Institute will assist each state by linking their individual efforts to pursue these objectives.

The Institute will:

- Establish policies and procedures to expand cooperative research at Midwestern universities and cooperation between those universities and foreign institutions.
- Contribute to improved access to technology by the states, universities and corporations in the Midwest;
- Help states to better understand and initiate efforts to improve access to technology with other countries;
- Develop a strategy to encourage equitable technology trade, initially with Japan and the United Kingdom.

Cooperation is the key to the success of this endeavor. The states in the Midwest represent a significant aggregation capable of achieving high visibility and leverage in the international market for technology. The university research organizations in the various states represent a unique resource whose economic value can be better realized by cooperative relationships with other universities and with private industry. The private sector base in the Midwest is strong and diversified, representing a significant opportunity for the transformation of technology into jobs. As these three sectors cooperate in the manner described in this paper, the economy of the Midwest will be strengthened far beyond what could be achieved by efforts of individual states.

THE ORGANIZATION

As envisioned, the cooperative effort of the states in the Midwest will be organized in three major parts: the Midwest Technology Development Institute (a not-for-profit corporation), a Midwest Technology Trading Corporation (a for-profit corporation), and a number of Cooperative Technology Development Consortia linking interests of universities and corporations throughout the region.

The Institute, which is discussed in detail in this paper, was incorporated in December, 1984; the Corporation will be formed later in 1985. Existing research programs will often be the focal point for the Cooperative Technology Development Consortia. Thus, the establishment of the Consortia will depend on the particular interests and situation at the various universities. But the first Consortia are envisioned to be operational during 1985 as well.

Midwest Technology Development Institute

The Institute itself is the umbrella, policy-setting organization created by the participating states. Its major objectives are:

1. To plan and coordinate a program of cooperative technology development and application among member states and between entities in those states and entities in foreign countries;

2. To encourage equitable technology trade between entities in the region and those in selected countries, beginning with Japan and the United Kingdom, and to develop a Midwest Technology Trading Corporation to assist with same; and

3. To assist in the establishment of Cooperative Technology Development Consortia to link the resources of the states, universities and corporations in the Midwest and abroad to expand technology development.

4. To undertake educational efforts aimed at improving understanding of the importance and value of technology development and technology transfer.

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Midwest Technology Trading Corporation

The Midwest Technology Trading Corporation (MTTC) will be formed as a for-profit organization which may have both public and private investors. It will have five major objectives:

1. To support cooperative technology development and encourage technology transfer within the region and between regional entities and those in Japan and the United Kingdom;

2. To negotiate equitable technology trading agreements between Midwest and foreign entities, beginning with those in Japan and the United Kingdom;

3. To build a portfolio of technologies acquired or licensed from small businesses, universities and others with the express intent to transfer them to entities in other countries as well as for catalyzing the expansion of firms and the creation of new ones in the midwestern region;

4. To provide advisory technology management, marketing and other related services to the Cooperative Technology Development Consortia and to Midwestern universities and small businesses.

5. To develop and market a technology information base, including information on available technologies and needs in the Midwest and various countries, particularly Japan and the United Kingdom.

To the extent possible, MTTC will attempt to have existing trading companies or technology brokers actually manage the exchange transactions. Where this is inappropriate or impossible for some reason, MTTC will itself assume the transaction responsibilities.

MTTC will build its technology portfolio through either representation rights or the outright purchase of technologies or investment in specific technologies through the acquisition of either equity or debt positions. In all cases where the company invests in a technology, it will do so based upon the expectation that the technology will be valuable in the context of technology transfers between entities in the Midwest and in other nations.

It is important to stress that the guiding principle governing MTTC's strategy will be to reinforce and build upon the comparative advantages of the Midwestern region. This means not simply focusing on certain industries in which the Midwest appears currently to have an advantage, but also to be cognizant of situations in which the region has the requisite resources to spawn new firms and industries. The overriding goal of MTTC is to build on the strengths of the region through cooperation.

The specifics of organization, governance, etc., of MTTC will be a priority effort by the Institute during 1985.

Cooperative Technology Development Consortia

The third element of the cooperative program is the Cooperative Technology Development Consortia. While the structures of the Consortia are expected to vary in response to the various interests of the participants, the Consortia are envisioned to be a mechanism for leveraging the technology development of universities and corporations in discipline areas defined by the Institute in cooperation with the development participants.

The governance (management) structure under which research and technology are conducted in the U. S. university system is such that the role of the individual, in both the funding and the conduct of the project with which he/she is involved, is a critical element. Accordingly, to be successful, the planned Consortia must be structured so as to complement the overall mission of the participating research universities. In effect, this means drawing directly on the strengths of faculties and student bodies where individual initiatives are prized commodities. From observation of the university/industry centers that the National Science Foundation has established, as well as from cooperative programs in the area of high energy physics, it can be expected that faculty and students will be willing participants in programs that are guided by responsive, democratic leadership. Indeed, such voluntary and active participation is one of the major assets of this nation in outpacing foreign competition.

While it is important to assure that there is no abridging of the essential autonomy of participating states, universities or corporations in the administration of the Consortia, it is also important that they reflect - both in their administration and their work agendas - the broad needs of the region. Therefore, both the Institute and MTIC will work with the participants to define the appropriate cooperative technology programs. Six areas seem pertinent for elaboration: first, the criteria for determining which areas in specific universities are the best candidates for participating in Consortia, including, in particular, the priorities for establishment; second, possibilities for the administration of the Consortia which deal with how the faculty and the private sector could be involved in management; third, the nature of incentive structures (fellowships, travel grants, etc.) which will encourage interuniversity exchanges of faculty, students, and data; fourth, mechanisms for dispersing the technologies and scientific outcomes that result from the activities of the Consortia to participants from the private sector and to MTTC; fifth, the feedback of revenues from the marketing or trading of technologies and scientific outcomes to the Institute for distribution; sixth, areas of research and technology development which would appear to be of particular national and international significance in the coming decades.

Whether they are within a single university or cooperative ventures of several institutions, the success of most interdisciplinary programs is dependent on mutual need. Usually this need is met through the complementary nature of che inputs of the participants. The focal points for such complementarity frequently include one or more of the following: costly equipment, expansive ideas, and the need for intellectual communion. These foci will be kept in mind when the Consortia are established.

Since the Institute is to serve as the principal organ for encouraging and facilitating the development of Consortia, it is important that the advice provided be the most perceptive possible. Therefore, the Institute will develop a mechanism for engaging in the long-range strategic planning targeted on assuring the industrial health of the community in the year 2000 and beyond. Accordingly, funds will be identified that will enable annual "think-tank" sessions which include participants from the Consortia and other knowledgeable resource persons. This review will serve the dual purpose of updating the Institute on the activities of the Consortia and enabling the use of Consortia personnel as a resource for long-range planning.

If the Consortia are to assure the most rapid translation of technologies into marketable commodities, the manner in which industrial representation is involved with program development and administration of centers is crucial. The model used in the national laboratories and some universities is the establishment of advisory panels that include scientists and administrators who are representative of all the involved constituencies. The Institute will explore such approaches and determine whether or not they warrant adoption.

Because all of the universities which will be associated with the Consortia include faculties with overlapping competencies, it is important that the Consortia be in a position to facilitate interuniversity communication among the faculties and the students they mentor. Thus, with the establishment of each Consortia, funds will be provided for the following purposes: travel and subsistence allowances for brief visits to the centers by faculty and students from other institutions; fellowships for graduate students to study at the centers; and salary monies for faculty from other universities to enable them to conduct research at the Consortia for a protracted period.

MIDWEST TECHNOLOGY DEVELOPMENT INSTITUTE

Work Plan

The major tasks of the Institute will include:

1. Encouraging or otherwise stimulating interest in technology, technology development and technology transfer;

2. Setting goals and developing strategic plans for the Institute and MTTC and assisting in the development in similar goals and plans for the Cooperative Technology Development Consortia;

3. Educating public and private officials about the importance of technology and equitable technology trade to economic growth and the need for a regional approach to technology trade and development;

4. Creating appropriate interrelationships with universities, public and private laboratories and private corporations that may be interested in the work of the Institute;

5. Establishing relationships with appropriate entities in Japan and the United Kingdom;

6. Developing, for consideration by the individual states and universities, a regional agenda for cooperative research, detailing with some specificity the need for and potential of cooperative technology development; and,

7. Providing appropriate assistance to the member states, universities, state trade offices, other interested organizations in their own efforts at understanding the potential value of technology, technology transfer and exploitation of available technologies.

Staffing

The Institute will be headed by a President experienced in working with states, businesses and universities in the development and application of technology. It is expected that one of the first actions of the Board of Directors will be to form a search committee to seek a President.

Three Vice Presidents will be hired by the President with the concurrence of the Board:

- o A Vice President for Strategic Plans and Programs with responsibility for strategic planning, communications and relationships with the states, the universities and private businesses including securing their participation in the Institute and its programs and for long range strategic and financial planning;
- o A Vice President for Research with responsibility for developing, in conjunction with the Board of Directors and the universities, a cooperative research agenda and for developing a program to inventory available and needed technologies;
- o A Vice President for Technology Trade with responsibility for developing, in conjunction with the Board of Directors and others, the Midwest Technology Trading Company and establishing processes and mechanisms for technology transfer.

Country specialists for Japan and the United Kingdom will be on the staff of MTTC. Until that organization is established, specific country expertise not available from the staff of the Institute will be hired on an as-needed, consultative basis.

Suggested First Steps

Following the incorporation, several initial steps will be taken by the Institute:

1. Form subcommittees of the Board of Directors to accomplish certain tasks, including: (a) a search for the President; (b) establishing a long-term financing plan for the

Institute; (c) establishing the Midwest Technology Trading Corporation; (d) developing specific policies and procedures to guide the Institute; and, (e) developing a cooperative research agenda;

2. Provide assistance to the member states and to other interested states in passage of legislation (if necessary);

3. Assist universities in the member states to understand how the universities and the Institute might best interact;

4. Develop an initial technology agenda, outlining the technology interests of the various member states; and develop a program or process for identifying an existing and needed technology;

5. Establish necessary contacts with appropriate individuals and organizations in the United Kingdom and Japan;

6. Review by-laws vis a vis appropriability for operation.

Incorporation

The Institute will be incorporated with a Board of Directors appointed by the participating states. A state will be a founding member when it has, before June 30, 1985, agreed to:

1. Appoint four Directors to the Board;

2. Make an initial $50,000 contribution for the operating budget through December, 1985.

Any state which is a member of the Midwestern Governors' Conference is eligible to be a founding member. The Board of Directors may admit other states as additional members who will then acquire the same rights and obligations as are applicable to the founding members. The Board may also make provision for associate membership by any individual, corporation or other entity with an interest in the mission of MTDI.

The Board of Directors shall have four Directors from each member state, and up to five Directors-at-Large at the discretion of the members. The President will serve on the Board as an ex-officio Director. A Chairman of the Board will be elected annually by the Board from its membership.

Budget

The administration budget for the first year of operation of the Institute is estimated to be $26,000. The Board of Directors, in refining the operating plan for the Institute, will also develop a financing plan for continued operation. Each participating State will be expected to contribute $50,000 towards the first year's operating costs. The State of Minnesota has agreed to assume some additional costs if necessary.

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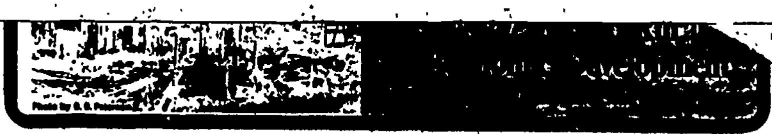


the western planner

A journal of information and ideas for planners, their boards and commissions, and their multiple publics

VOLUME [illegible], NUMBER 1 JANUARY/FEBRUARY, [illegible]

High-value agriculture—
SE Utah's development strategy

by [illegible], Director
Planning and Management
Utah Department of Agriculture

The [illegible] red rock spires and arches of the incredibly eroded formations of the Colorado Plateau provide a backdrop that hides the area's severe depression from view of the casual tourist. The towns of Southeastern Utah are surrounded by National Parks and Monuments, some of the nation's most undeveloped, wildest country, and the ruins of the Anasazi Civilization [illegible] years ago [illegible] to be following the Anasazi example: they are leaving.

Only a few years ago Southeastern Utah was prospering. Uranium prices were high, drilling crews were exploring the depths of the Colorado Plateau for its wealth of oil and gas, the energy crisis meant growth. Now drilling has ceased, uranium is worth less than the cost of mining and milling, and the fossil fuel glut means depression. The communities of Southeastern Utah never regarded agriculture or tourism as anything but minimum wage, seasonal employment. These industries could not compete against the wages paid to miners or drill rig crews. As a result, there has been very little investment in agriculture and tourism. The renewable resource economic sectors of the Colorado Plateau are underdeveloped; they are awaiting an entrepreneur with the necessary vision and money.

Fortunately, the entrepreneurial spirit is not dead. Several residents got together a little over a year ago and organized the Canyonlands Fruit-growers Cooperative. They were convinced that the soil and climate would support the production of grapes. Test plots put in place over a decade ago had proven the technical feasibility of developing vineyards. The Co-op members approached the Utah Department of Agriculture which was able to provide low interest loans (3%) through the Agricultural Resource Development Loan (ARDL) Program. Agriculture worked with the Co-op in seeking other sources of funding. By the end of the first year ARDL funds, combined with money from the Utah Community Impact Account and a Community Development Block Grant, made it possible to develop an irrigation system, finance individual drip irrigation systems, purchase vines and trellising, and begin the construction of a juicing and processing plant.

When the vineyards reach full production and the juicing-processing plant is operational there will be new income for the area. No one expects that these small vineyards and the plant will solve the employment problems of Southeastern Utah. However, in a county with barely 5000 population only

a few new jobs are necessary to make a substantial contribution toward resolving the unemployment problem.

Grapes, and other specialty crops, can fluctuate wildly in value as shifts in supply and demand occur. At last harvest many California grape growers left grapes on the vines rather than accept prices lower than the cost of hiring pickers. The depressed grape market in California is the result of many farmers planting grapes several years ago as prices were climbing rapidly; by the

time all the new vineyards were in production the prices had to drop due to the excess in supply. Considering the plight of the California grape growers, one may question the wisdom of encouraging grape production in the state of Utah.

The grape production level projected for Southeastern Utah can be sold through existing markets and to the cooperative's juicing and processing plant. The plant produces a value-added product that is in high demand in a regional (protected) market. Future plans to expand the market for the grape production of the Canyonlands Fruit Growers Cooperative include the development of a winery. The grapevines that thrive in Southeastern Utah include several table and wine-making varieties. Imagine tours of Utah wine country!

[illegible] particular commodity is [illegible] may be economically competitive in a local/regional market. Product differentiation is an important concept in the marketing of almost everything except agricultural products. However, product differentiation can be the key to successful local and regional marketing of agricultural products, particularly the high value specialty crops. These products can be differentiated in the marketplace through an emphasis on local quality and freshness and other special characteristics, including the economic advantage to the local or regional economy. Marketing tests in several states have shown that consumers are willing to pay slightly higher prices for the local agricultural products.

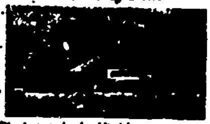
The State of Utah and the Canyonlands Fruit Growers Cooperative have combined limited resources [illegible]ate economic opportunity through the development of high value crops and the related value-added processing business. The Canyonlands Cooperative represents the first real commitment of public funding for the development of a renewable resources industry in Southeastern Utah. It is clear that the major commitments to support and subsidize the non-renewable resource extraction industries have only brought the area temporary wealth spaced between long episodes of economic depression. Agricultural development may prove to be one of the more realistic, long-term economic opportunities for this isolated region that has been by-passed by the Nation's economic recovery.

Table of Contents

Western Regional Conference, July [illegible]
(notice on page 14)

New Jobs Bulletin — see page 3

A Sense of Place



Photography by Utah's Gary B. Peterson.........Pages 8-9

IN THE NEWS...IN THE STATES

Pages 2-4

MAP montana association of planners

by Mike Money

Greetings and Happy New Year!

As the incoming president, I would like to thank the association's membership for the confidence they have shown by allowing me to assume this position. I would also like to extend our thanks and appreciation to Andy Epple for all his work and accomplishments during 1984.

As you are all aware, 1985 is a very important legislative year for the association. The Subdivision and Legislative committees have been working very hard in preparing a bill to tighten up the use and abuse of the exemptions and to encourage the use of the subdivision review process. The Board of Directors held their first meeting on the 15th of January 1985, in Helena, and finalized MAP's position in relation to these changes.

Following that meeting, the Subdivision Committee met with the Montana Association of Realtors and the Montana Association of Registered Land Surveyors to discuss MAP's proposal. The meeting was extremely productive and we were able to then make some changes that should be more agreeable to everyone.

All members of the association will be receiving a copy of the proposed changes as soon as possible. We ask that you lend your personal support by reviewing the proposed changes with your local planning boards, governing bodies and legislators. We must gain support on the local level before we can expect it to be successful on the state level.

The association at the present

Dues are due!

time has only 57 registered members. Please be advised that your dues are expected by January 1 of each year. All those not registered by March 1, 1985, will be taken off the Western Planner mailing list. As stated earlier, this is an important year. As such, we must have the capital to pursue our efforts in the legislature. Without your dues, it makes it extremely difficult to pay the anticipated expenses. Your immediate response will be greatly appreciated.

The following Board of Directors have been selected to chair these committees: Marcia Elkins, Spring Conference Committee; Andy Epple, Legislative Committee; Steve Herbelly, Professional Development and Education Committee; Kevin Fenner, APA Affiliation Committee; Jerry Sorenson, Subdivision Review Committee; Kathy Fuller, Membership Committee; Mike Money, CDBG Committee, Mike Money, Western Planner and MAP Newsletter Committee.

If you have any questions, ideas or comments, please contact these individuals. I look forward to meeting and working with you this next year. If you're ever in Bozeman, please don't hesitate to stop in and visit. Have a nice year and I hope to see you at the Spring Conference!

ASSOCIATION OF SOUTH DAKOTA GEOGRAPHERS AND PLANNERS

by Ben Orsbon

The annual meeting of the South Dakota Association of Geographers and Planners will be held on March 14 at South Dakota State University in Brookings. At this point, topics for the annual meeting include the following:

- Planning Using Aerial Photography as a Base Map, Dave Quest, Planning Director, Minnehaha County.
- Roadway Mapping Systems, Dean Nielsen, Director, SECOG
- Planning for Land Development

The sessions will be held in the Student Union in a meeting room to be announced.

Additional sessions will be proposed as they become known. Times for the sessions had not finalized at the time this article was written.

Idaho Planners

News on APA Section out soon. Prospects look good.

WYOPASS

The legislature, once again, is in session. They will be pondering new legislation, as well as changes in existing statutes concerning cities, towns and counties. The following is a brief list of filed bills which may have a relationship to Planners around the state:

H.B. 36—Real property statement of consideration, H.B. 64—Abandoned vehicles, H.B. 125—City and Town operations (Title 15; changes); S.F. 11—Public contracts; S.F. 47—Cities or Towns governing body powers (Title 15; changes); H.B. 150—Hazardous waste study

If you have any questions or need further information concerning the above bills or other planning related bills, contact Tom Bond, Cheyenne, or any other of the WYOPASS Board Members. If you support or are against any of the proposed bills or changes, let the people know. As you may know, the County Clerk usually has copies of H.B.s and S.F.s in their office for the general public's use.

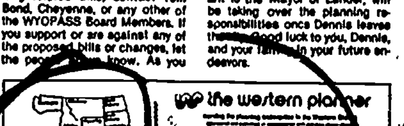
NEW JOBS

Harvey Krause, former Gillette City Planning Director, resigned and accepted a new job as Assistant City Administrator while Joe Racine has become the new Planning Director for Gillette.

Dennis Kowalczyk, Director of Planning for the City of Lander, will be leaving soon to accept a new position in Douglas County, Nevada as Associate Planner. During his 3½ year stay in Lander,

Planners on the move!

Dennis was involved in the revision and implementation of the city's Zoning Ordinance and Subdivision Regulations, as well as the updating of the Major Transportation Plan and Growth Management Plan. Dennis was also involved with the writing and implementation of the Solar Access Permit system, and the initial phases of the proposed Annexation Policy for Lander. Alan O'Hashi, Assistant to the Mayor of Lander, will be taking over the planning responsibilities once Dennis leaves there. Good luck to you, Dennis, and your family in your future endeavors.



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AICP Exam deadlines:
- Filing of applications — Feb. 4
- Registering for Exam — Apr. 1
- Exam — May 13-18
(Contact Washington Nat'l Office for further details)

UTAH CHAPTER AMERICAN PLANNING ASSOCIATION

by Kenneth L. Sizemore

The Utah Chapter Planners say Hello! We hope to include a column in each WP edition in the future.

Land Use Law Seminar

The executive committee and program committee have worked diligently to prepare for the upcoming APA/AICP Land Use Law Seminar. Set aside February 21 and 22, 1985 for a visit to the Beehive State. In addition to the regular sessions, mobile tours of the downtown area are planned, as well as a social. Remember Utah's great powder skiing.

Western Planner Committee

The chapter has established a committee to coordinate with WP efforts. If you have questions or concerns with WP issues, contact any of the following persons:

Kenneth Sizemore, Cache County, 752-8327

Rick Mayfield, Davis County, 773-7800

Dave Conine, State Ag. Dept., 533-6908

AICP Exam Review Sessions

The professional development committee has prepared a series of six (6) AICP exam review sessions beginning the first week in February. Contact Garth Limburg, Provo City, 373-7170 for details.

Coming Up

The program committee continues to offer enlightening monthly luncheons. Some upcoming topics include:

- February—Land Use Law Seminar/Social hour

Land Use Law Seminar

Feb. 21-22, SLC

(See page 14)

- March—Historic Preservation
- April—Wasatch Front Light Rail System
- May—Annual Chapter Conference

Watch the Chapter Newsletter for details on date, location and cost.

As you can see, we in Utah have a great amount of talent and dedication working for our chapter. The following are our officers: Pat Comarell, President (Ogden); Wilf Sommerkorn, Vice President (Davis Co.); Kenneth Sizemore, Secretary (Cache Co.); Barbara Murphy, Treasurer (State Historic Preservation); Rob Scott, Past President (Ogden); Garth Limburg, Prof. Development (Provo); Stephanie Loker, Program (Salt Lake); Cathy Owen, Citizen Planner (Sandy); and Cal Champlin, Student (U of U).

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PAGE 4 WP JANUARY-FEBRUARY, 1985

Network News | Housing, CP, Hazards

First publicly sponsored mobile home park in Northwest under construction

by Bob Davis
King County Housing Authority
Seattle, Washington

The King County Housing Authority (KCHA) is constructing the first publicly sponsored mobile home park in the Northwest. The park is the first step by KCHA to promote home ownership for low- and moderate-income seniors. The park, Vantage Glen, will be followed by a second park for families and senior citizens.

Vantage Glen is located 15 miles southeast of Seattle and is close to a full range of shopping and health services. The 164-home park will provide a secure environment and will feature an attractive community center.

The Vantage Glen Mobile Home Park combines a number of elements that result in affordable housing for senior citizens. The land purchase and planning for the park were financed with block grants from King County. Construction of park improvements (community building, streets, water, sewer, power) are funded by tax free bond anticipation notes issued by the Housing Authority. The mobile homes will be purchased by the senior residents.

The low cost of manufactured housing is a critical part of this program. Acting as a dealer, KCHA will be able to provide an elderly couple with a two-bedroom, 900-square-foot home for less than $15,000. This compares favorable with the $25,000 to $28,000 construction cost of a 600-square-foot one bedroom unit in a senior citizen multi-family building.

The park will primarily serve those active seniors with incomes close to 80% of median income. Market information indicates that residents will be younger two-member families. This differs from our current senior residents who tend to be members of single-person families with incomes close to or below 50% of median. The seniors at Vantage Glen will have the resources to cash out or finance the mobile homes.

The cost to live at Vantage Glen will range from $150 per month (if the couple purchases their home for cash) to $350 (if the home purchase is fully financed).

Traditional threats inherent in private parks of having the park redeveloped to a higher multi-family or commercial use will not be an issue at Vantage Glen. The benefits of a land purchase grant from King County, tax-exempt construction and permanent financing through KCHA, and non-profit management by the Housing Authority accrue to the senior citizens in the form of lower-than-market pad rentals.

The public benefits by a stable source of affordable housing for senior citizens. The cost to the public for the program is less than the traditional deep subsidy programs. The public investment is protected by the combined interest of the public agency and the senior citizen homeowners.

Vantage Glen demonstrates that a housing authority with assistance from local government, in this case King County, can produce affordable housing without deep federal subsidies.

Reprinted from the Northwest NAHRO News, December, 1984.

Advisory group used as communication link to manage change

by Rio Blanco County
Development Department
Reid Haughey
Western County Coordinator
Rangely, Colorado

There are unique problems and opportunities that mold the planning process in Rio Blanco County and our efforts at citizen participation. One such unique quality is the environment of change we function in.

Rio Blanco County is the site of both prototype federal oil shale leases in Colorado. By some estimates, within the boundaries of the Piceance Creek Basin (which lies primarily within the county), there is more oil in the form of shale than in all of the Middle East. Due to the experimental nature of the recovery process required to turn shale into oil, the course of the development of these leases has been on-again off again for many years. The impacts and effects of this development (and its potential of bringing as many as 2,000 new individuals to our communities in a very short period of time) are enormous, especially given our county's population.

Although the county is larger than the state of Connecticut, there are only 7,000 residents. The population of Rio Blanco County is roughly divided equally between the two communities of Meeker and Rangely. Rangely is a community highly dependent on the energy industry. Meeker, the county seat, is an agricultural and tourism community that is economically dependent on the energy industries as well. Due to our dependence on the energy industry, the economy and course of growth of Rio Blanco County is subject to national and international conditions over which residents have little control. Boom and bust were never more apparent.

To effectively manage this situation, the Development Department, under the direction of the County Commissioners, has established the Western and Eastern Advisory groups. These groups, comprised of formal and informal community leaders, provide the vehicle for advising the commissioners on the decisions they make regarding commitments of capital funds to projects undertaken to manage potential growth. Representatives from each of the towns and every special district are included in these groups. The Western Advisory group represents the community of Rangely, and the Eastern Advisory group represents Meeker.

The Planning Commission is involved in the process of review for all activities requiring permits and they alternate meetings (as do the commissioners), between the two communities, so that citizens have a better opportunity to be heard at these public meetings. This is no easy task, especially in winter, since the towns are sixty miles apart.

As with most small communities, much of the communication about the events of the day occur on a very informal level, and each town has their coffee shop where news is exchanged. Those individuals involved in the planning process in Rio Blanco County, from elected officials to staff, try to keep informal links of communication open. The advisory groups are an effective means of increasing participation and visibility. When used in conjunction with an open and honest attitude by all involved, the citizens of Rio Blanco County are able to exercise an effective and timely voice in the planning process.

Reducing earthquake hazards

William J. Kockelman
USGS, Menlo Park, California

Many techniques for reducing earthquake hazards before the event are available to planners, engineers, and decisionmakers. Some of these techniques are well known to the planning profession, such as public acquisition of hazardous areas, or to the engineering profession, such as designing and constructing earthquake-resistant structures. Others are obvious, such as warning signs and regulations. Still others have been successfully used in solving landslide, flood and soil problems but have not heretofore been applied to earthquake hazards.

These and other techniques are listed (following) under the general headings of discouraging new development, removing or converting existing unsafe development, providing financial incentives or disincentives, regulating new development, protecting existing development, and ensuring the construction of earthquake-resistant structures.

Discouraging new development in hazardous areas by:
- Adopting seismic-safety or alternate-land-use plans
- Developing public facility and utility service-area policies
- Disclosing the hazards to potential buyers
- Enacting Presidential and gubernatorial executive orders
- Informing and educating the public.

Removing or converting existing unsafe development through:
- Acquiring or exchanging hazardous properties
- Clearing and redeveloping blighted areas before an earthquake
- Discontinuing nonconforming uses
- Reconstructing damaged areas after an earthquake
- Removing unsafe structures

Providing financial incentives or disincentives by:
- Adopting lending policies that reflect risk of loss
- Clarifying the legal liability of real-property owners
- Conditioning Federal and state financial assistance
- Making public capital improvements in safe areas
- Providing tax credits or lower assessments to property owners
- Requiring nonsubsidized insurance related to level of hazard

Regulating new development in hazardous areas by:
- Creating special hazard-reduction zones and regulations
- Enacting subdivision ordinances
- Placing moratoriums on rebuilding
- Regulating building setbacks from known hazardous areas
- Requiring appropriate land-use zoning districts and regulations

Protecting existing development through:
- Creating improvement districts that assess costs to beneficiaries
- Operating monitoring, warning and evacuating systems
- Securing building contents and nonstructural components
- Stabilizing potential earthquake-triggered landslides
- Strengthening or retrofitting unreinforced masonry buildings

Ensuring the construction of earthquake-resistant structures by:
- Adopting or enforcing modern building codes
- Conducting appropriate engineering, geologic and seismologic studies
- Investigating and evaluating risk of a proposed site, structure or use
- Repairing, strengthening or reconstructing after an earthquake
- Testing and strengthening or replacing critical lifelines

Contact WP editorial office about joining or starting an informal network of special interest planners to share monthly column.

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Rediscovering Agriculture— Key to rural economic development

Special Utah Case Study Section: Pages 5-13, 16

Overview: Planners' skills valuable asset to agriculture and rural community development

In gathering the articles for this issue, we have placed an emphasis on agriculture as a rural economic development opportunity. Considering the amount of attention being focused on the economic decline of agriculture this may seem to represent kamikaze economics at its best. Clearly much of America's agriculture is in serious trouble. The strength of the dollar abroad makes our agricultural production less competitive in the world market. High interest rates, production costs that exceed market price, and the increasing cost of doing business have all conspired to make agriculture seem like a poor bet for economic development. And certainly agriculture, or any other industry, should not be considered the universal cure for the lagging rural economy.

Rural development requires that the unique strengths and weaknesses of the particular rural area be carefully evaluated. Such an evaluation may show that agriculture is the business that the rural community must recover from. The problem is that all too often agriculture is viewed from the perspective of conventional wisdom that suggests that the crops and the markets for the agriculture of a particular place will not change. If farmers are losing money growing alfalfa, the rural development specialist is likely to conclude that something other than agriculture is the hope for the economy. Maybe so, but it could be that the agriculturalists have not been innovative enough. Have they considered other crops and different marketing techniques? What about the value-added industries of food processing and packaging associated with agriculture?

Most of the experienced agricultural specialists from state agencies and the college extension services are bound by very traditional views. More of the conventional wisdom that has made it almost impossible for agriculture to adapt to a changing global economy is not needed. When the agricultural industry puffs up its chest to talk about innovation, it invariably describes the great productivity of the American farmer. It is true: the American farmer is so productive that his product is a glut on the market. Yet most agricultural research is still focused on increasing productivity. The development of new products to utilize our production and improved marketing and distribution are only now beginning to receive attention.

Granary—Providence, Utah

photo by B. S. Peterson

How does all this relate to the needs of the planner? Most rural planners have had to become more diverse. They have to offer the client or the city or county more than a master plan and a zoning map. The planner must be a comprehensivist, able to relate planning activities to a well-ordered economic development process. The relationship between the traditional role(s) of the planner and rural economic development has never been more critical.

Only a few short years ago, the major focus of most of the literature on rural community planning was dealing with the rapid growth problem. The "Gillette Syndrome" and growth impact mitigation were the rural planner's leading concerns. During the energy boom there were many communities suffering tremendous decline, but the planner's attention was fixed on growth impact. Planners should also have been looking at post-growth impact mitigation and should have been developing strategies for economic stagnation mitigation. The lesson is that trends are not ultimate destiny.

Most planners are trained in several disciplines and the planner ought to be adaptable enough to effectively merge economic development skills with the traditional planning responsibilities. John Naisbitt, author of Megatrends, sees the future belonging to the generalist because the rate of change renders the specialist obsolete. The generalist is adaptable and has a larger bag of tricks to draw upon. That suggests a niche for the generalist (comprehensivist) planner.

Agriculture has been the traditional industry of most of rural America. Economic development in the agricultural sector will not require impact mitigation strategies; it will fit an existing labor force, and it represents an economic use of renewable resources. The rural planner must consider whether those advantages adequately offset the well-known problems facing agriculture today. In many cases an innovative approach to development of the agricultural economy will show that we have an underdeveloped renewable resource in agriculture. Agriculture and the rural communities are in need of the planner's development and planning skills. Hopefully, the planners will consider the possibilities.

Thanks, Utah!

Dave Conine and Skyhawk

Editorial and financial support for this special section, *Agriculture—the Key*, came from the Utah Department of Agriculture. Representing the Department as coordinator and co-editor of the section was Dave Conine, Director, Planning and Managment. Dave is a well-known planner in the region and has been a member of the WP Editorial Board since 1980. He is an avid flyer, pictured above with his favorite mode of transportation (and recreation).

Senator urges action to reverse trends

by Senator Orrin G. Hatch, Utah
Forestry, Ag & Nutrition Committee

As productivity rates in many of our nation's industries are slipping, the efficiency of the U.S. farmer remains the envy of the world. American agriculture, with less than 1 percent of the world's farmers and farmworkers, produces 66 percent of the world's poultry, 22 percent of its beef and 21 percent of its peaches.

The productive capability of the American Farmer is particularly amazing when one considers the demands of the job. Farming is a risky proposition, requiring a multitude of scientific skills, the application of business principles and sophisticated techniques. It is time well spent, however, as the fruits of their efforts fuel the national and global economy in addition to feeding its population. In fact, agriculture is the number one industry in America, employing more than 20 million Americans.

As technology continues to bring about decreases in disease and increases in productivity and efficiency, farmers will need to plan ahead making necessary adjustments in their individual production and marketing practices to reflect changing conditions. Involvement in legislative matters, in my opinion, should not be overlooked as a part of the planning process. Such involvement can produce dividends not only in legislative matters, but administrative and regulatory as well.

Senator Hatch

It behooves each individual to become as actively involved in the formulation of policy as possible, particularly this coming year, as Congress begins to work on the 1985 Farm Bill. As a part of this process, policy makers will again face some tough decisions regarding the role government should have in farm policy.

On a national basis, significant steps have been taken by the Administration and Congress to reverse the trends of the 1970s from expanding exports to both old and new markets, to re-establishing our reputation as a reliable supplier in world markets and easing tax burdens on farmers. While these are all-important steps, I believe a healthy economy is the single most important key to the establishment of a prosperous rural and agricultural sector.

The leveling of interest rates from an all-time high of 21 percent to 13 percent and bringing inflation from 12.4 percent to 4 percent is an important beginning. And though costs increased 19 percent in 1979, they actually decreased by 3 percent in 1983. It will take individual planning and commitment and effort to continue this trend. But I believe the effort is essential to the future of the rural community, the state and the nation.

The above article represents excerpts from remarks prepared for the WP by Senator Hatch.

PAGE 8 [illegible] JANUARY-FEBRUARY, [illegible]

Importance of Agriculture economy to Utah's future

by Brad Barber
Office of Planning & Budget
State of Utah

Agriculture — the Key

Ag gives way to industrialization

The agricultural industry, once the core of the economic base of the state of Utah, has been declining steadily in importance over the last five decades. According to U.S. Bureau of Economic Analysis data, in 1940 personal income derived directly from agricultural production comprised 14% of personal income and, by 1983, this percentage has declined to less than 1%. (See Table I and Figure I.) This has occurred not because agriculture production has not grown in Utah. In fact, cash receipts for livestock and crops have grown from $47 million in 1940 to $354 million in 1983, according to the Utah Department of Agriculture. Rather, over the past century, Utah has slowly industrialized and moved away from being a purely agrarian society, as have many other parts of the United States.

Acceleration of this trend began perhaps with the development of the defense industry during World War II and continued through the Seventies with the emergence of what was coined a decade ago as the "New Utah." This concept refers to a new era of rapid growth and industrialization and proposed that Utah, especially the Wasatch Front, was continuously capturing a larger share of national economic growth through expansion of its economic base and through import substitution.

The "New Utah" concept is supported by contending that industrialization is occurring because Utah, particularly the Wasatch Front, enjoys some locational advantages for industrial development over other areas of the nation. The concept further contends that Utah is only in the beginning stages of this trend and further industrialization will occur with the continued decrease of the importance of agriculture.

Data supports ag importance

One might conclude from the above, and many people have, that agriculture is not very important to the Utah economy any longer and, if it were to evaporate completely, the economy would not feel much of an impact. However, if one completely examines employment data, a different conclusion might be reached.

The following is based on analysis of Utah Department of Employment Security Employment data, Bureau of Economic Analysis (BEA) employment and income data and data from the Utah Process Economic and Demographic Model (UPED) from the Utah Office of Planning and Budget. It should be noted that there are limitations to this analysis, as no direct interactions between industries have been identified. Inter-industry interactions analysis would require an Input-Output Model. However, some useful insights and conclusions can still be drawn.

The first aspect of the agricultural economy in Utah which must be examined is the fact that this industry is a very "basic industry," (i.e., most of what is produced is exported.) Because this basic industry sells goods outside the state, revenues from agricultural sales flow into the state and thus additional income and jobs are derived via the multiplier effect. (The export base multiplier for Utah has been identified by the UPED model as being 2.1.) These effects are shown in the above illustration as "Induced Employment."

Secondly, the basic agricultural production industry creates additional basic or "indirect basic jobs." These are jobs which result from producing the materials, supplies and equipment needed for production of agricultural products or "backward linkages." Also, additional jobs are created in the processing and distribution of agricultural products after they are produced, or "forward linkages." These linkages and their components are shown in Figure II.

A look at these backward and forward linkages shows a very different picture of the importance of agriculture in Utah. Backward linkages include the manufacturing, sales and servicing of machinery and chemicals; planting, harvesting and spraying services; financial, technical and managerial assistance; and so on. Forward linkages include food manufacturing, processing, distribution and retail sales. If employment in all these industries is considered, as shown in Column A of Table II, the total number of jobs would be 65,348 in 1983 or 13.3% of total jobs in Utah (see Figure III).

Additional jobs are added to this total if the export base multiplier of 2.1 is applied to the basic component of these industries from Column B of Table II (i.e., the wages and salaries paid to agriculture employees that flows from outside Utah which is spent in other industries.) Thus, it could then be argued that a total of 132,384 jobs are either directly or indirectly related to food production, manufacturing, distribution and consumption in Utah.

However, not all of these jobs are tied directly to food produced in Utah. Much of the food consumed here is imported from outside the state. Also, it could be argued that, whether or not agricultural products are grown here, we all must buy groceries and eat. Therefore, these jobs would be here regardless of Utah agricultural production. If we eliminate from the analysis wholesale grocery sales and retail food sales and restaurants, total jobs in Utah would be 34,671 or 8.4% of all jobs. If the export base multiplier is applied to the basic component of those agricultural industries which are related to in-state agricultural production (Column D of Table II), then another 30,971 jobs are added.

Therefore, it could be argued that 65,642 jobs or 10.2% of all jobs in Utah are directly or indirectly related to the agricultural economy in Utah. However, this may be slightly overstated because this would assume that all food manufacturing and warehousing is related to Utah agricultural production, which may not be true. On the other hand, none of this employment data includes any employment of part-time farmers.

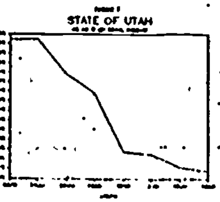
Distribution figures show rural importance

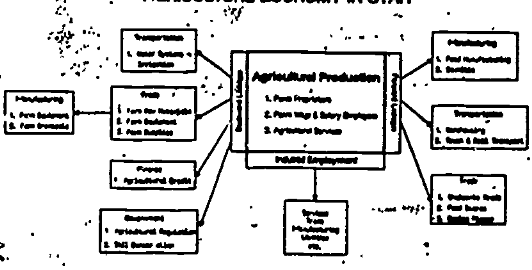
An additional aspect of the agriculture economy in Utah is the analysis of the regional distribution of importance. (See Table III.) For example, although in Salt Lake County the percent of personal income derived from agriculture is negligible, Piute County received over 13% of its personal income directly from agriculture production and agricultural services in 1982. Rich county received 12%, Millard and Daggett, 6%; Morgan, 6%; and Wayne, 5%. Agriculture, of course, is entirely basic (almost all products are exported) to these counties and much more of their economies are dependent on agriculture than these percentages indicate. Also, no manufacturing or distribution of agricultural products is included in these percentages.

Employment data can provide an even better illustration of the importance of agriculture to the economies of many rural Utah Counties. If total farm proprietors, farm wage and salary workers, food manufacturing and all other jobs related to Utah agriculture production, as described earlier, are examined in relation to total jobs, the results show how significant agriculture is in some counties. (See Table IV.) Rich County leads with 62%, followed by Piute 47%, Wayne 41%, San Pete 35%, Emery 31% and Morgan 30%. The lowest percentages are Salt Lake 2%, followed by Davis, Tooele, Grand and Carbon with about 4%. These percentages do not include the induced employment created by the basic nature of most of these jobs. If these were included, it would show that agriculture comprises the dominant portion of the economies in many rural Utah counties.

Ag development key to future

Regardless of how the agricultural economy in Utah is analyzed, the conclusion is that it is indeed important to the Utah economy. If the agricultural economy in Utah would die, the impacts would be felt. However, some parts of





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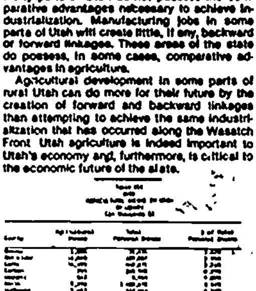
Utah are much more dependent on agriculture than others and may indeed not recover from agricultural demise.

In addition, the energy and resource development industries in rural Utah are not projected by the Utah Office of Planning and Budget to grow substantially over the next 25 years. The agricultural economies in rural Utah could therefore become even more important as a means of economic development and as a means of survival in the booms and busts of a national resource-based economy.

Moreover, the "New Utah" concept referred to earlier is not occurring throughout Utah and may never occur in many parts of the state. Many parts of Utah do not possess the comparative advantages necessary to achieve industrialization. Manufacturing jobs in some parts of Utah will create little, if any, backward or forward linkages. These areas of the state do possess, in some cases, comparative advantages in agriculture.

Agricultural development in some parts of rural Utah can do more for their future by the creation of forward and backward linkages than attempting to achieve the same industrialization that has occurred along the Wasatch Front. Utah agriculture is indeed important to Utah's economy and, furthermore, is critical to the economic future of the state.

UTAH'S AGRICULTURE EMPLOYMENT



So what do we do?

Craig Bigler
Utah Department of Agriculture

In his article on the opposite page, Brad Barber provides apparent evidence that agriculture is not important to the overall economy of Utah. Income from direct production of crops and livestock is pitifully low. However, in terms of employment, the industry remains extremely important to many Utah counties and is, in fact, significant to the state. Barber closes the article by insisting agriculture development may be the key to future economic well-being in much of Utah.

Need to reawaken public

The following discusses this apparent dichotomy with reference to a program to promote agriculture development. We in the Utah Department of Agriculture feel agriculture development is possible in spite of all the conventional wisdom and economic data that say otherwise. Our first task is to reawaken the Utah public to the importance of agriculture and to explore, with the public, agriculture's opportunities. While agriculture's importance is both economic and cultural, this discussion is limited to economic indicators.

Barber's article is the first time in memory that anyone has attempted a rational examination of agriculture industry employment for Utah. The USDA, by counting everyone who so much as touches food or something used to grow, make or transport food, estimates that employment in the food and agriculture industry is nearly 22 percent of national employment. (Using the same technique, Barber estimates 20.5 percent for Utah.)

On the other hand, estimates of income vastly understate agriculture's share of the total economy for two reasons, one benign, the other perverse. The benign reason derives from U.S. tax codes. Farmers and ranchers, after deducting all allowable expenses from their gross incomes end up with very little taxable income. The perverse reason is that few farmers and ranchers can turn a profit when commodity prices are down (chief culprit: over valued dollar), and costs continue to rise.

Real service — at some risk

Brad Barber has done us a real service — at some risk to his reputation. He paints a fair picture of Utah agriculture's importance by asking What would happen to Utah employment if agriculture disappeared, but we still continued to eat food from somewhere? His Table IV gives a good answer. Apparently 36 thousand persons, or 6.1 percent of total employed, would suddenly go directly to the unemployment rolls. In three counties more than 40 percent of workers would lose their jobs. In 13 other counties more than 15 percent would lose their jobs. Induced and secondary affects would be immense.

If we omit the four most urban counties (Salt Lake, Davis, Weber and Utah), we find that for the rest of the state, 17 percent of employment is in agriculture. (Ironically, 41 percent of total agriculture employment is in these same four urban counties.)

In other words, with only three exceptions, agriculture is of great importance to rural Utah counties. And, clearly, with over six percent of state employment, agriculture is of more than passing concern to the well-being of the whole state.

So what do we do?

So what should we do about it? Just think about 20 years of Great Society economic development programs. Many of us in the planning business had a hand in pouring millions of public dollars into rural Utah for economic and community development. We have industrial parks, mostly empty, all over the place. We have many new or newly paved roads that serve good purposes, but how many jobs can be attributed to them? Our rural communities are better places to live, but in far too many of them high unemployment and low income go hand in hand.

No longer do we have to worry about mitigating energy development; we must mitigate the energy bust. Economic development programs have brought in little more than a few footloose manufacturing operations with no forward or backward linkages. Neither a renewed War on Poverty nor a new energy boom is on the horizon. What is left for rural Utah? Perhaps only agriculture and tourism.

Can we do for agriculture what we have done for skiing and what we are trying to do for tourism in the rest of Utah? Why not? Not many years ago most Americans seemed to believe that nearly all the Rocky Mountains, and all the mountain skiing, were in Colorado. We loosened our liquor laws, we generated a pride among Utahns in our mountains and snow, and set out to sell these virtues to the rest of the country. I can personally testify it has worked, that Utah skiing is revered among eastern and west coast skiers.

Following the same pattern, the state is increasing its efforts to promote the canyon country of southern Utah. We have begun to share our affection for the canyon country with the rest of the country. In time our National Parks may become as revered as our skiing. Millions more people will visit the state, recognize its assets and act to advertise its qualities.

If Canyonlands National Park were as familiar to as many Americans as are Snowbird, Alta and Park City, the American public would rise up to protest against a Nuclear Waste Repository on its border. This insult to the park's integrity would be out of the question. If economic development programs had worked (or if agriculture development can work), the repository would not be seen as an attractive alternative to economic development.

Agricultural development through expanding market

We have begun to follow a similar approach to agriculture development. First, we are working to reacquaint Utahns with the industry. Fewer and fewer people seem to remember that Utah once produced a wide variety of fruits and vegetables. Now we import the largest part of the food we eat, including about 56 million pounds of processed vegetables and 16 million pounds of processed fruits, not including citrus. The retail value of food consumed in Utah is approaching $2 billion. The economic benefits that would derive from increasing our shares of production and of processing by only a few percentage points would be significant.

We should be able to increase our share of the Utah food market. Utah has the fastest natural population growth rate in the nation — equal to or exceeding many third world countries. And additional people are migrating into the state. With an eye on this expanding market, we are working to promote Utah products within the state. As with skiing, we cannot hope to market Utah produce outside the state unless Utahns themselves recognize it as an asset. Only then will entrepreneurs see the opportunities.

But the provision of basic foods to young, large, struggling families is not the stuff of an economic turnaround. People do not fly over Colorado to ski in Utah because it is closer or cheaper or easier. They come here because skiing in Utah is their first choice, not second best.

By the same token, we cannot expect people to select Utah produce because it is cheaper. Price competition is impossible against the huge producers in California, Texas and Mexico. Produce can be profitably grown in Utah only if it, too, is first choice. It must be so superior that people will be willing, people must be eager, to pay more for it relative to the typical supermarket fare.

High-value products

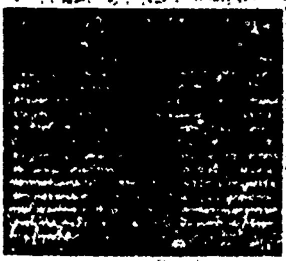
Our efforts to reawaken the Utah public to its agriculture heritage, to learn from the state's few agriculture entrepreneurs how they do it so that others may learn, and to promote markets for high-value products, will be long and arduous. But they are underway.

We are working to demonstrate that agriculture is important in Utah. We believe the Utah public is not entirely satisfied with the produce now available in supermarkets, because that produce is bred to withstand the rigors of cross-country transportation with little regard for taste or nutrition.

We are encouraging farmers to produce high quality/high value products. We are searching for ways to provide the technical and managerial assistance they need. We hope to convince Utahns, and the produce markets, that superior quality is worth a little higher price. We will help producers in their own efforts to find and develop markets.

Once we have an array of identifiably superior Utah products, it probably goes without saying that we will turn to the many shops and restaurants catering to tourists as a means to acquaint residents of other states and countries with these products.

Rediscovering Agriculture

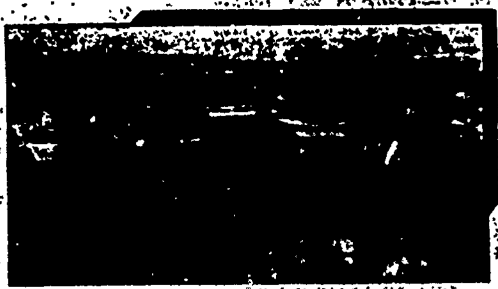


A Sense of Place: Photographs of the Morman Landscape

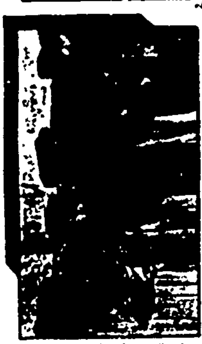
Agriculture—the Key

Early 20th Century advertising on barn—on Highway 89, Cache County

Collection of stuff reflects the philosophy "waste not, want not." – Providence



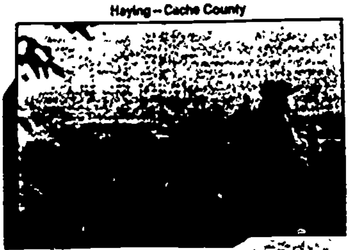
Utah!



Kimball Junction Stage Station barn – Summit County

"S.U.E." metal facade imported from St. Louis – Panguitch

Haying – Cache County



PAGE 10 UP JANUARY-FEBRUARY, 1986

Innovative measures called for — Both urban and rural areas gain . . .

Land swap stops canyon development—protects SLC water

The following article is reprinted by permission of The Salt Lake Tribune and was prepared by Brian Wilkinson, Tribune staff writer.

A series of land exchanges that will prevent lower Little Cottonwood Canyon from becoming a 600-house suburb and damaging a vital watershed is nearly half complete, say officials of a private land-conservation group.

In late 1981, some three miles of the sheer-walled canyon, running along the creek from the canyon mouth eastward, were in danger of intensive development that could have obstructed a popular rock-climbing area and degraded the source of 20 percent of the Salt Lake Valley's culinary water supply.

Concern for guarding the area, though, jelled. Local and federal officials met with property owners and, with the cementing force of the Trust for Public Land (TPL), a preservation deal was struck.

Through a complicated exchange process and an innovative financing plan, 545 acres at the canyon's entryway will be moved from private ownership to the protection of the U.S. Forest Service, which has always wanted the land but couldn't afford it. Salt Lake City will retain the land's water rights.

The cooperative effort to prevent development of lower Little Cottonwood has enjoyed "a virtual unanimity of support for the preservation of the canyon," said Lisa McGimsey, a TPL vice president. TPL, which has helped protect some 300,000 acres of open space and recreational lands in 20 states, is using its non-profit status to transfer the canyon property at $1 million less than market value.

"We have land the Forest Service wants, so we're trying to link it up with tracts the Forest Service is willing to part with," said Ms. McGimsey this week prior to attending a TPL reception held to spotlight the project and drum up more buyers for the land. "The trade will make some Forest Service land more developable and vice versa."

Added an exultant Mayor Ted L. Wilson. "This certainly was not an unpopular thing around here. No one wanted to build homes up there—not even the people who owned the land.

"That canyon is just not a place to build homes," said the mayor, who often climbs the lower canyon's granite walls.

The land deal, which has the blessing of Utah's Congressional delegation, Gov Scott M. Matheson, Mayor Wilson and the Salt Lake City Council, the Salt Lake County Council of Governments and the Wasatch National Forest, works like this:

San Francisco-based TPL bought 545 acres at the canyon entryway from the Whitmore Family Trust and Perpetual Storage Inc. Three years ago, the Whitmores planned to sell the land to a developer. However, when approached about the TPL deal, the family agreed to the alternative.

Then, in a financing plan unique to similar land deals, Salt Lake City Corp. used excess bonding capacity in its Water Department to generate $3.4 million to buy the land from [illegible]. The land itself cost $2.8 million, $1 million less than market value, while interest costs added $600,000. Officials say this financing scheme could become a prototype for other governments anxious to preserve endangered resources.

The city and the trust in late 1983 entered into a three-year agreement with an option to renew for one year. A revised schedule now puts the deal's completion date at two years.

TPL then worked with the federal government to identify surplus U.S. Forest Service parcels that are economically important, such as ski resort land.

Buyers are sought for those surplus lands and the proceeds pay off the city's bonds. In return, the Forest Service is given control over a portion of the lower canyon property that is equal in value to the surplus land sold. By law, the Forest Service is prevented from selling land; it can only trade it.

If any money is left over from the land transactions after the three-year term of the city/TPL contract, the first $200,000 will go to TPL and the rest to the city. If, after three years, not all of the lower canyon property has been conveyed to the Forest Service, the city will receive all of the profit.

The first of the land exchanges will be complete in January or February and will generate about $1.5 million, said Ms McGimsey.

Five improved properties in Alta now under Forest Service Special Use Permit and four parcels in Morgan and Davis counties will be traded for a portion of the canyon entryway.

Others who are interested in buying surplus Forest Service land should contact TPL, said Ms McGimsey.

photo by C.R. Peterson

Wasatch mountains are vital watershed to Salt Lake Valley's residents. 1970s photo shows Valley dairy being squeezed out by urban development.

TPL facilitates trades to preserve open space

The Trust for Public Land, which helped put together a land-swap deal to conserve 545 acres of Little Cottonwood Canyon for public use, is an 11-year-old non-profit company organized to preserve open space for the public.

TPL's main programs concentrate on transferring privately owned lands to public ownership, such as in Salt Lake City, and on forming locally controlled land trusts to protect environmentally sensitive lands when governmental ownership is not feasible or appropriate.

Since 1973, TPL has used the economic advantages of its non-profit status to help protect nearly 300,000 acres of open space and recreational lands in more than 200 transactions in 20 states. These deals have saved almost $30 million in public agency land acquisition funds, according to TPL promotional material. The Little Cottonwood land-swap is TPL's first project in Utah.

Other recent TPL projects include:

—Cumberland Island National Seashore, Georgia. Nearly 2,200 acres of private land was acquired after more than a decade of negotiations by TPL and the National Park Service in 1982.

—Spruce Knob-Seneca Rocks National Recreation Area, West Virginia. Obtaining this 1,600-acre wilderness in the Potomac River Valley was given the U.S. Forest Service's highest priority for acquisition in the eastern region because of its proximity to large urban areas, where recreational lands are in short supply. After 12 years of trying to buy the land, the deal was capped in January 1982.

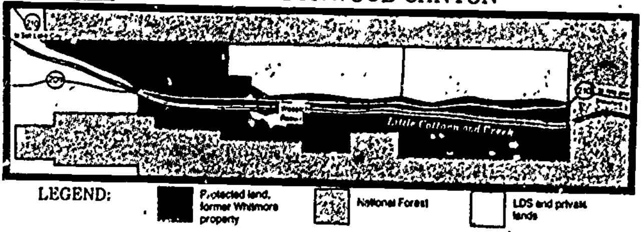
—With TPL's assistance in forming a land trust, 2,600 acres of land along Central Washington's Yakima River will become a recreational park. The locally controlled land trust will negotiate and acquire land parcels from private property owners.

TRUST for PUBLIC LAND

The Trust for Public Land
82 Second Street
San Francisco, California 94105
(415)495-4014

6B The Salt Lake Tribune Monday, November 18, 1984

LITTLE COTTONWOOD CANYON



LEGEND: Protected land, former Whitmore property | National Forest | LDS and private lands

With support from multiple publics...

Cedar Valley agriculturalists and sportsmen team up

The following article is printed by permission of The Salt Lake Tribune from the September 6, 1984 issue.

CEDAR FORT—The farmer didn't look like a man who was easily impressed. He drove an old pickup truck. Both the man and his vehicle looked like they had become part of the land.

"How did you get your hay loaded?" asked a friend.

"Couple of dove hunters came over to help me," he said.

What's this? A sportsman and a farmer actually helping one another? It was hard to believe.

Yet, it is happening on both a small scale and a large scale in Cedar Valley. Farmers, sportsmen, Division of Wildlife Resources biologists, the Utah Department of Agriculture and the U.S. Soil Conservation Service have launched a new project which could have far reaching benefits to both the farmer and the sportsman.

Local farmers, the DWR and the Agriculture Department created an experimental posted hunting unit on 5,500 acres of Cedar Valley, located west of Utah Lake.

Three-hundred $10 hunting permits were issued (about 150 were sold for the dove opener). Some of the funds will go to the farmers but the majority will be put back into local conservation needs and habitat development.

"Conservation is everyone's business," said Steve Gilmor, commissioner of the Utah Department of Agriculture. "We hope to have a very well-developed program at Cedar Fort in the next five years."

Erosion a Problem

Soil erosion on the dry farms in the area is a major problem. The idea of the program is to solve that problem along gully and ditch banks while improving habitat for upland game birds, especially pheasants, and conserving water.

As part of the program, the Department of Agriculture would like to construct a catch basin and a reservoir to help solve the erosion problems and lack of water in the area.

Much of the erosion can be controlled by planting tall grass and certain dry farm varieties of alfalfa along ditch banks and simply letting them grow, thus keeping the soil in place.

That's where upland game—especially pheasants—fit into the program.

It has been said that a good farmer is the pheasant's greatest enemy. A good farmer uses every available bit of his land, leaving little cover along fence rows or ditch banks for pheasants to roost and hide.

When trying to control erosion, however, leaving the cover is a good idea. And, as part of the experimental program, cover will be left for pheasants along some of the fence lines as well.

To get the Cedar Valley pheasant program on track, the DWR—which has done precious little to help ring-neck hunters in recent years—will work with local 4-H clubs to hatch and plant pheasant chicks in the Cedar Valley area to take advantage of the habitat and give the local populations a boost.

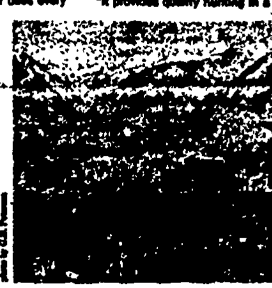
Sportsmen Impressed

Sportsmen who purchased the $10 permit for Saturday's dove opener seemed very impressed and felt like they were getting their money's worth.

"I think it's the only way to go," said Jay Wright of Murray, who said he had paid to hunt in Texas, where most of the land is private. "There is more and more closed land. You have to have something like this to keep it open."

"It's a bargain to pay $10 for the whole season," said Redell Hunt of Hunter. "There's 5,500 acres here and very few hunters."

"It provides quality hunting in a large area," said Dave Nielsen of West Valley. "One reason we support it is that not all of the money is going to go to the farmers. Some will go into wildlife."



"When controlling erosion, however, leaving cover is a good idea."

Agriculture - the Key

Gilmor is hoping that the Cedar Valley experimental hunting unit will be a model unit and that other areas of the state will get together on similar cooperative efforts. He plans a conservation day at Cedar Fort in April of 1985 and hopes to sell the program to other farmers. He feels the experimental area will increase in size next year.

Utah's pheasant program desperately needs such a boost. With 80,000 pheasant hunters in the state, only the deer season is a more important hunt. Yet, in past years, it almost seems as if the DWR has given up on the pheasant. There has been little innovation or emphasis on the program.

Other states are trying to work with farmers to set aside land for habitat protection. For example, the Wildlife Management Institute reports that the Arkansas Game and Fish Commission, in cooperation with the U.S. Extension Service, has enrolled more than 1.1 million acres in its habitat protection program called Acres for Wildlife.

The program started in 1972 with 16,076 acres enrolled. Now, more than 3,000 landowners participate. Landowners who sign up for the program must establish prescribed wildlife practices on their farmland, such as leaving cover along fence rows, building brushpiles in out-of-the-way corners, maintaining wildlife food plots and adjusting agricultural practices to benefit wildlife.

The Cedar Valley program is an important step in the direction in Utah, and the farmers, DWR, Department of Agriculture and Soil Conservation Service should be commended for having the foresight to begin such an effort.

Federal report suggests a balance must be struck.....

Rural Communities and the American farm: Partnership for Progress

In October, 1980, Congress enacted the Rural Development Policy Act (Public Law 96-355). This act required the Secretary of Agriculture to prepare a rural development strategy and to issue annual updates to it.

The rural development policy statement presented to the Congress in 1983, entitled Better Country: A Strategy for Rural Development in the 1980s, concentrated on the phenomenon of a new migration from urban to rural America, on the progress and new challenges which this migration has brought to rural America, and on the ways in which Federal policy should encourage rural America's growing economic diversification and political sophistication.

As that report noted:

"After a century of decline, many areas of rural America have experienced remarkable revitalization in the last decade. The population of rural and small town America grew more than 10 percent faster than that of urban America in the 1970s, and more than 50 million people (including more than 20 million of the statistical areas officially designated 'metropolitan') now call rural America home."

The report for 1984, entitled Rural Communities and the American Farm: A Partnership for Progress, finds much has been accomplished in the service of the "new" rural America. But, just as rural America is changing, the policy-making process itself is an evolutionary one. The report goes beyond the framework of its predecessor to suggest a new partnership for progress between the rural community and the American farm—a partnership in which these long-time rural neighbors can help meet each other's special needs and fulfill each other's special potential without any additional commitment of Federal funds.

There are some 2½ million farms in this country, ranging from dairy farms of a few acres to cattle ranches as big as some states. Annual income on these farms ranges from less than nothing to more than a million dollars.

But whatever the size or the wealth or the principal product of American farms, fewer and fewer farm families rely on agricultural production alone for their income. Dependence of "off-farm" income has rapidly increased during the last quarter of a century, rising from [illegible] percent of total farm family income in [illegible] to more than [illegible] percent today.

Studies show that farm families with annual farm sales of $40,000 to $100,000 earn [illegible] percent of their total yearly income from off-farm sources. Farm families with less than $40,000 in annual farm sales derive essentially all of their income from sources other than farm production. Many farmers with sales of less than $20,000 annually are deliberately and permanently part-time farmers and are virtually full-time workers elsewhere in the rural economy.

These circumstances stand in sharp contrast to those farms producing more than $500,000 in annual sales. These farms represent only 1 percent of all American farms, yet they generate about 30 percent of all American farm sales.

They, too, rely on "off-farm" sources for a portion of their annual income, but this off-farm income is usually produced through such enterprises as investments, rent and stock dividends, rather than through salaries or wage-earning work.

According to the 1978 Census of Agriculture, [illegible] percent of all American farm operators report that their principal occupation was something "other than farming." This percentage represented a 10-point increase over a similar survey taken just four years earlier.

Well over half of all American farm families now supplement their farm income by working off the farm.

Two-thirds of the farm families with less than $20,000 in annual sales report working off the farm. Ninety percent of the operators of these farms and 70 percent of their spouses report working 25 or more hours a week

Well over half of all American farm families now supplement their farm income by working off the farm.

at off-farm jobs, in most cases 50 or more weeks a year.

All of these figures point to new conditions in American farm life that have important implications for rural development policy:

- Part-time farming is no longer a transitional stage during which farmers and their family members take off-farm work on their way into or out of full-time farming. Instead, such part-time farming has come to represent a permanent and important part of a stable, multi-job rural economy.
- Farms with less than $40,000 in annual sales, a group in which most of the farm families report outside jobs, comprise just over 70 percent of all farms.
- Farms with annual sales between $40,000 and $100,000 may be candidates for economic extinction before the decade of the 1980s is out. Farms will either be larger or smaller, as the demand of daily farm operations and the need for substantial outside income on farms of this size are increasingly incompatible.
- By the end of this decade, the share of farm family income derived from off-farm sources will significantly

Former Utah Ag Commissioner Stephen T. Gillmor serves up message to Extension Service, which planners should take to heart..

Be boldly innovative—attempt new things

As our state has become increasingly urbanized, and I might add that Utah is one of the Nation's ten most urban states, there must certainly be an increased demand for the services of extension by the city dweller. I just hope that the very essential services that Extension provides to the rural community and to agriculture are not overshadowed by the need for urban area programs.

Eight five percent of our state's population resides within the metropolitan area of the Wasatch Front. The fifteen percent living in the rural areas of the state have been bypassed by the states economic growth and development. When the Utah economy goes through a recession the rural areas are hard hit. When the economy rebounds, the rural community recovers much more slowly or continues to decline. Although only a small percentage of Utahns live in rural areas, it would be fitting and appropriate for Extension to maintain, and enhance, its rural emphasis.

Certainly all aware of the major new emphasis ... Utah Department of Agriculture is placing on the development of agriculture, the rural community, and the economic health of farming and ranching in our state. We are no longer content to watch the economic development of this state remain the exclusive domain of the Wasatch Front. There are profound and significant changes occurring in the national and global economies that may seem to threaten the economic health of the rural community.

I am confident that we can innovatively adapt and adjust so that forces will not overwhelm, but will enhance the rural community. We can make these adjustments and adaptations only through the cooperative efforts between those organizations and institutions with the expertise, resources and credibility to work effectively in the rural community.

The economy is shifting toward the high-tech information, and services sectors, mining and heavy industry are in decline in the United States and in Utah. The U.S. position in the global economy is moving from heavy industry toward the information services and high tech industries. This shift has produced an eager seeking of the high tech industry as the clean, economically stable industry we all need. We are just beginning to learn that the high tech industries are not as squeaky clean as we once thought, and they are not about to become the economic salvation of the declining rural community.

All the emphasis on the high tech industries ignores the real strength of agriculture as America's only world class industry. We may lead the world in various high tech sectors for a period of time, but our dominance in high tech is subject to our competitor's innovative ability and the constantly shifting cost of labor in developing nations. Only agriculture remains as America's stable export industry. The world has come to depend upon the reliability of American agriculture.

Since we are increasingly subject to the influence of the global economy, it only makes sense to develop and strengthen that portion of our economy that we know will continue to be America's most important export trade industry. Government attempts at rural economic development over the past several decades have usually regarded the rural community as a scaled down city. It has not worked. Only a thorough understanding of the unique characteristics of the individual rural community will provide the background necessary to create viable economic development.

It seems clear that agriculture is rural Utah's underdeveloped industry. Underdeveloped, that is, when one considers its yet-to-be-realized potential.

There are several important factors we must recognize if agriculture is to emerge as one of the major contributors to growth for rural Utah and the entire state. First of all, there is the all-important cooperation I have already mentioned. The Utah Department of Agriculture has relied on Utah State University and the Extension Service for technical assistance and for the implementation of an ambitious research program we have undertaken. Just a sampling of the productive examples of this cooperation is truly impressive. Here are some highlights.

Utah Commissioner of Agriculture, Stephen T. Gillmor, makes a cropland evaluation.

Minimum till/no till

The Extension Service has acquired the equipment and has run a statewide demonstration program in no till and minimum till farming techniques. The acceptance of reduced tillage farming by Utah farmers will reduce soil erosion and improve the quality of surface water. The project is an example of Utah Department of Agriculture research funding being utilized to harness the technical expertise of the land grant university for the economic and productive benefit of agriculture.

N.I.R. alfalfa testing

Working with a research grant from the Utah Department of Agriculture has made it possible for Utah State University technicians to perfect the use of near-infra-red analysis of alfalfa. The analysis measures the nutrient values of alfalfa, giving the producer a quantitative statement of the grade and quality of the alfalfa. The analysis of alfalfa nutrition value gives the producer a distinct advantage towards the product and/or in mixing feed rations for livestock.

Economic and marketing studies

The Agriculture Economics Department of Utah State University has been retained by the Utah Department of Agriculture to develop a marketing strategy and technical assistance in marketing Utah agricultural products. The marketing projects provide Utah producers with skilled expertise in market development while helping fund programs and student projects at the university.

L.E.S.A.

The Utah State University Department of Landscape Architecture and Environmental Planning, under contract with the Utah Department of Agriculture, produced a computer model of the Land Evaluation Site Assessment (LESA) system the Soil Conservation Service developed to implement the Farmland Protection Policy Act of 1981. The computer model is an adaptation of LESA, designed to more effectively address the agricultural preservation concerns of the western states. Utah State University's computer model, the Utah Cropland Evaluation System (U.C.L.E.S.) is a user friendly system that enables the operator to consider a large number of critical factors in evaluating agricultural lands for preservation or conversion to other uses. Since developing the U.C.L.E.S. model, the Department of Agriculture has worked with U.S.U. in getting county data entered so that broader implementation of the system will occur.

We know the economy of Utah and the Nation is undergoing major change; our job will increasingly require us to adapt Utah agriculture to compete and thrive in a rapidly changing economy. We cannot afford to dismiss a new concept simply because it is contrary to the conventional wisdom. We may have to allow some old assumptions about marketing and economy of scale to be redefined. It is the bold innovator that attempts new and often unproven ideas that carves a niche. Agriculture and our rural communities are steeped in tradition, but we must take care that tradition does not thwart creativity. We cannot allow tradition to mask important change, lest our tradition be buried by the change we failed to see coming. There is opportunity for agriculture and the rural community to grow and thrive in the new global economy now emerging.

I will conclude by urging continued cooperation and I urge those of you in the Extension

Agriculture - the Key

Service to be boldly innovative. Use your experience and judgment to attempt new things, rather than to resist change. The research and agricultural development work we have done jointly with the Extension Service has provided healthy dividends to the state, and I am confident that our continued cooperation can offer our rural communities and agricultural enterprise unprecedented prosperity.

Once again, political and economic pressures have resulted in tough times for agriculture. The tough times demand leadership and innovation. But uncertainty can lead us to be defensive about practices and long-held assumptions which may no longer be in our best interest. I would hope to see the Extension Service leading a spirited, innovative exploration of new means for improving the economic viability of agriculture. I would like to see you investigating the potential of new crops, re-examining the assumptions about the scale of production, marketing techniques, and agriculture as a basis for economic development. We must make agriculture adaptable enough to survive in a rapidly changing world.

We should not be complacently patting ourselves on the back about the great progress achieved by Utah's farmers and ranchers. We are on an economic precipice. And more of what got us there will not save us.

The political and economic change that threatens agriculture also provides new opportunities that will require the development of new approaches to doing the business of agriculture. Hopefully, the Extension Service will be up to the task of playing a major role in developing a responsive and resilient new agricultural economy for Utah.

Thank you.

Excerpts from remarks given to the Extension Service.

ALRA dedicated to conservation of land

The American Land Resource Association (ALRA) is a new inter-disciplinary membership organization dedicated to the long-term conservation of the American land base. Its goal is to help facilitate the transfer of techniques and information on land conservation in America. The Association is open to anyone concerned with the conserving of the American land base. It will stress such private land issues as the preservation of farmland, the industrialization of agriculture, urban greening, habitat, wetland and scenic areas protection, rural urbanization and water management.

Members in the Association will receive a subscription to a quarterly magazine, American Land Forum, and a bi-monthly newsletter ALRA Bulletin, standing invitations to the quarterly forums which will be held on key "top-of-the-news" issues and the annual "State-of-the-Land" and access to the LUCINDA Program, a unique nationwide computerized networking program which puts people who already know why land must be conserved in contact with those who know how. For more information on either the ALRA or the LUCINDA Program, please contact Kevin Coyle, at ALRA, 5410 Grosvenor Lane, Bethesda, MD 20815 or call 301-.30-9140

Challenge to develop agriculture opportunities heard in another State, but this time innovation involves non-productive land . . .

Agriculture in a greenhouse - Chilton style

by Edmund H. Dederling
Block Grant Administrator
Chilton, Wisconsin

ABSTRACT

The city of Chilton, located 35 miles south of Green Bay home of the Packers, and 86 miles north of Milwaukee, Brewer Town, has a population of 3,003. We are the seat of Calumet County, abundant in dairy farms where the cow population is greater than the people population. With a good mix of light industry, however, we still have 12% unemployment. What we accomplished in our Incinerator - Hydroponic Greenhouse project is something every small city can and should do! Help save your environment and put non-productive land to use growing vegetables. It is not difficult. It simply takes some money!

INTRODUCTION

The energy strategies of the City of Chilton, Wisconsin, were not prompted by the energy crisis, per se. A previous successful single-year Community Development Block Grant Program (CDBG) funded through the U.S. Dept. of Housing and Urban Development (HUD) for housing rehabilitation, prompted City officials to seek additional funding for not only housing rehab work but assistance to repair and remodel the 80-ton-per-day incinerator which had been inoperative for the past three years.

The incinerator was constructed in 1972 and operated successfully until 1978 when it became impossible to continue. (Successfully means it burned garbage.) It had two major problems: (1) it did not have a method of controlling the amount of fuel being added to the burn pit (2) There were no provisions to prevent acid rain. With uncontrolled fuel input, pit temperatures could reach 3,000 degrees F. This coupled with the lack of a controlled caustic system to lower the acidity of the smoke, to be frank, we just burned up the incinerator.

In planning a second application to HUD, the incinerator was definitely considered. The City had just been through a great shock when the private landfill operator, with less than a 24-hour notice, refused to accept any more garbage from the City. Thankfully an alternate plan was in existence. This unexpected development plus our environmental concern, prompted the City Council to authorize an $8,000 feasibility study by Estech Engineering, Inc., of Neenah, Wis. to see if the incinerator could be put back into operation and at what cost.

Mayor A. W. Larson and Dir. of Public Works Tim Foster were concerned about

CDBG application received the highest score in the state in 1981!

using the tremendous heat loss during incineration. Mr. Foster was familiar with hydroponic gardening and after more discussion and some phone calls, they convinced the Council to fund a study by Future Ways, Inc., of Rochelle, Ill., costing $2,000.

Future Ways confirmed Foster's belief that hydroponics were indeed profitable and would work in the cold climate of Wisconsin. Chilton is located 35 miles from nine large cities with a combined population of 500,000, thus providing a ready market. Tomatoes, lettuce and cucumbers would be the primary product. The major concern was the heat requirements during the long winters. Later this proved to be a minor concern, once the greenhouses were in operation.

Estech's study showed that the incinerator could be modernized and that, through proper operation and maintenance, it would provide the community with long-term, reliable waste disposal at a reasonable cost. In addition, the study indicated that the potential did exist for substantial heat recovery far in excess of the energy which would be needed to extend the growing season in the greenhouses, enough in fact to provide heat for some other industrial purpose such as the drying of produce in a processing plant. A heat exchanger could be installed to convert the hot exhaust air from the stack into usable heat for industry.

In order to achieve peak efficiency in the operation of the incinerator the study indicated that the recycling of natural resources (plastic, glass and metals) would be practical for several reasons. Not only does recycling reduce the incinerator loading quantities, but also it reduces the bulk of the ash which must be removed, thus prolonging the life of the incinerator and requiring a smaller landfill. Reducing the operating cost of incineration saves tax dollars and also conserves our dwindling natural resources, all the while employing more people from the New Hope Center. The inert ash would be no threat to underground water another plus feature.

The Estech study further showed that $500,000 would be necessary to rebuild the incinerator approximately one-third the cost of a new one, and an additional $250,000 would be required to install an energy-recovery steam boiler. The boiler would be capable of recapturing 80% of the 50 million BTUs per hour otherwise lost to the atmosphere. The greenhouse project, when developed to three acres, is estimated to require only 3 million BTUs per hour for heating. The remaining 37 million BTUs would then be available for processing in another new industry. Not only could the availability of this energy source encourage industrial development in this area but a portion of the revenue derived could be set aside to use for additional industrial development.

The long-term benefits of this project, spurred by local energy recovery could be the creation of permanent jobs for many of the unemployed in our area. An additional spinoff could be the development of electrical power generation, which could take care of the incinerator motors and lights, the greenhouse growing lights and motors and the spent steam from generation could still be sold as heat to nearby industries.

We now had a complete CDBG application for submission to HUD. Housing Rehab (86 homes), Public Facilities (rebuild the incinerator), and Economic Development (build the hydroponic greenhouses). It received the highest score of all applications in the state of Wisconsin in 1981 as scored by HUD and the Wis. Dept. of Development.

The innovative ideas and concepts in the use of Block Grant Funds in this 3-year $1,234,523 grant brought the City of Chilton the 1982 HUD National Merit Award. The three-year grant would provide approximately $730,000 for Housing Rehabilitation, $125,000 for the incinerator project (the City would spend about $400,000) and $380,000 for Economic Development for New Hope Center (their shared cost of about $300,000) for site development, a produce building, one greenhouse, growing lights, the recycling center and energy updating of their main building.

HYDROPONIC GREENHOUSES

Yes, Mother, you can grow vegetables in water and they don't drown. Unless you've seen it, it is difficult to imagine a tomato vine 15 ft. long with over a dozen 2 lb. tomatoes on the vine and No Dirt—Just Water. That's Hydroponic Gardening.

The greenhouse project was initiated for two major reasons. (1) to provide excellent vocational opportunities for severely handicapped persons and (2) to generate increased revenues for the New Hope Center, Inc., which would assist in making the agency more self-sufficient and less dependent on County tax-dollars. Presently the project has four units in operation. One 30'x124' lettuce quonset (about 1/10 acre), a 30'x128' tomato quonset (1/10 acre), a 37'x132' cucumber quonset (1/10 acre) and a 65'x128' tri-bay tomato quonset (2/10 acre). The lettuce house can produce approximately 100,000 heads of lettuce in a year and operates the year around. The tomato units contain 3,400 plants which produce about 40 pounds per plant or about 140,000 lbs. per year and the 500 cucumber plants produce approximately 40,000 pounds of tasty cucumbers per year.

The project has definitely provided our first objective, to create excellent work training opportunities for our handicapped people. Four persons which were being provided training under federally-funded programs are now permanently employed persons in the greenhouse program.

There are about 25 handicapped persons being trained on a daily basis in the various aspects of the greenhouse work. It should be noted that all handicapped persons being trained are receiving wages, which helps reduce their dependence on the tax payer. They are now taxpayers themselves and they no longer have to ask Mom or Dad if they can have a new pair of slacks—they now can say, "I'll buy my own slacks."

In addition, during 1983, eleven handicapped persons have completed training in the greenhouse project and obtained permanent jobs in competitive industry. This is a great savings to taxpayers but imagine the value of recovering one of the Most Important Natural Resources—A Human Being!

These people two years ago did not have and could not find a job. Now through this HUD financed project with the working partnership of the New Hope Center and the City of Chilton, these people are in the mainstream of life—a place where handicapped people never walked before. I guess it was said best of all by one of the HUD monitors touring the greenhouses, when as we were leaving said, "You know, of all the projects we have pumped millions of dollars into, this is the most rewarding we've seen—Did You Notice The Gleam In Their Eyes?" Pass the Kleenex.

Financially the Hydroponic Greenhouse has been fairly successful, considering it has been in operation only two years. The major problem was the large amount of start-up required for that type of project. Through experience and new technology, we have found better and less expensive greenhouses, equipment and growing supplies. High start-up costs reduced the number of greenhouses we were able to initially construct. This has reduced the expected revenue. By the fall of 1985, with the continued increase in the production and revenues, the debt reduction will allow New Hope to construct more greenhouses. The market is there—they just need the production facilities.

In the spring of 1981, when the grant was written, New Hope anticipated that they would reduce their dependence on tax dollars from the 82% level of 1981 to 65% by 1984 and 30% by 1990. We are proud to say that they are presently at 64.3%—right on schedule. With the added production facilities the 1990 projection is easily in sight.

Once in operation, lengthening the growing season in cold winter became the major concern—not the heating concern first expressed in the feasibility study! Lettuce needs at least 15 hours of light per day; it can grow 24 hours a day if the sunlight is there. Tomatoes however need 8 hours of rest per day so 16 hours is the maximum growing time per day. Growing lights were installed in the houses and, as we all know, light bulbs generate their own heat! It may seem unbelievable, but there are times in the winter when the exhaust fans turn on automatically because the temperature inside has reached 75 degrees and must be cooled down. These quonsets are terrific solar collectors in daylight hours. It can be 20 degrees below zero outside and the exhaust fans will kick in as it is too warm inside.

CONCLUSION

Hydroponics is indeed the best way to grow vegetables on non-productive land and at the same time employ the unemployable and provide us all with excellent vegetables.

Every community has garbage—Every community has handicapped people—Get your City officials together—Solve many of these problems through the assistance of Federal Grants—If you don't use some ~~of these monies in your city, someone~~ else will as long as grants are available! It will cost you some money for sure, but is the Air you Breath and the Water you Drink worth something??????

(HUD funded a one-day "Small Cities Waste to Energy" seminar this past June in Chilton. It is because of that seminar that we were asked to submit a paper for this Colloquium. For those of you who are concerned, copies of the seminar handouts, information and transcripts of the speakers, over 100 pages, are available. Send $10 per copy to the City of Chilton, 42 School Street, Chilton, Wis. 53014, to cover the cost of printing and mailing.)

Colloquium proceedings available

The preceding article was reprinted by permission of the Nebraska Energy Office from the proceedings of the "Community Energy Management as an Economic Development Strategy" Colloquium. A complete copy of the proceedings can be ordered by calling or writing Dual Disney, Nebraska Energy Office, P.O. Box 95085, Lincoln, NE 68509 (402) 471-2867. The price of $16.00 includes postage.

Continued from page 11

exceed the current amount of about two-thirds.

• Off-farm income helps stabilize total farm income, since income from farming can fluctuate significantly from year to year.

• Encouraging more private sector job opportunities and more attractive rural investment opportunities for farmers thus become clear and urgent objectives of rural development.

• Given all these facts, the American farm and the vital rural community must move forward together. In many rural areas, one cannot succeed without the other. A strong working partnership can mean progress for both.

While the farm remains the strong foundation of rural life in America, the decade of the 1970s brought a broad economic diversification to rural regions, as documented in Better Country. In light of the new information detailing the growing dependence of farm families on nonfarm income, this diversified economic growth in rural America must be continued and expanded.

Such expansion, of course, can help not only the part-time farmers but also the urban refugee who wishes to enjoy the pasture without owning the cow. Millions of urban Americans have, in recent years, begun to migrate from the cities to the countryside in search of cleaner air, less congestion, a simpler and less stressful life, an opportunity to create a new enterprise, or any one of a thousand other reasons.

The benefits to rural communities from this migration have been manifold—a larger and broader tax base, more resources for improving public facilities and services, and

Office of Rural Development policy solicits ideas

a new social and economic vitality rarely seen in rural America since the 1920s.

As Better Country noted, opinion surveys since that time have routinely revealed a distinct preference among Americans for the rural over the urban lifestyle—even as an exodus from the country to the city was in progress.

It is extremely important, then, that rural development means something other than simply paving over the American farm, fields and forests. But neither can rural development be confined to a farmer's market and a general store.

There is a balance to be struck, and striking that balance is the aim of this Administration's rural development efforts.

Accordingly, the national rural development strategy will focus on six major tasks.

• Enhancing the economic partnership between the farm and nonfarm rural communities.

• Encouraging the growth of existing rural businesses and stimulating new business ventures.

• Increasing local rural officials' access to the knowledge and skills necessary to address local concerns.

• Improving the management and protection of rural land and natural resources.

• Raising Federal officials' awareness of rural concerns and focusing attention on the potential impact of Federal policies and programs on rural communities.

• Increasing the coordination among Federal agencies in the delivery of programs and services to rural areas.

The 1985 update of the strategy will be submitted to Congress soon.

The Office of Rural Development Policy welcomes ideas and comments on ways that the public and private sectors can address these six policy themes. Send your comments to Willard (Bill) Phillips, Jr., Director, Office of Rural Development Policy, U.S. Department of Agriculture, Room 5049-S, Washington, D.C. 20250.

Utah's governor focuses on rural economic issues...

Marketing critical to agri-business future

On January 7 Governor Norman Bangerter began his term as Utah's first Republican Governor in twenty years. In this address to Western General Dairies the Governor outlined Utah's continued commitment to agricultural development.

It is a pleasure to be with you today. I am here to discuss the future of agriculture in this state. Cap Ferry, the Commissioner of Agriculture, tells me that if Utah Lake and the Great Salt Lake continue to rise, the future of agriculture is cows that swim and hay that grows underwater.

Most of you are certainly well aware that the business of agriculture has had a rough time for the past three or four years. It reminds me of the story of the farmer that won a million dollars in the Illinois Lottery. When he was asked what he would do with all that money, he replied that he just figured he would farm until it was used up. In today's economy, that may not take long.

Ag stimulates local economy

The economic difficulties faced by agriculture in Utah have seriously affected a number of Utah's rural communities. According to statistics on employment and income for Utah, agriculture has declined to a level of less than one percent of the state's wage and proprietorship income. I would hasten to point out that the actual income contribution of agriculture is substantially higher than that. Our figures suggest that it is more like five percent of the state's wage and proprietorship income.

Additionally, agriculture buys many goods and services that create substantial employment in economic sectors that are counted as non-agricultural. Nationally, according to USDA, the American agricultural industry is the world's largest commercial industry, employing 22 million people or 20% of America's labor force.

Development of agri-industry encouraged

Rural development efforts of the state and federal governments have prompted industrial parks and energy development. Unfortunately, very little has been done to promote the growth of the renewable resources of agriculture.

Some of you may recall the concern about the impact of large scale energy development on the small communities of the West. Now the concerns associated with energy development deal with how to retrain and employ the people that lost their jobs when the energy and mining boom went bust. The entire history of the mineral extraction industry, particularly in the West, has been marked by swings between the boom and bust cycles of the mining economy. The rural economy that is built up around a mix of agriculture and agricultural industries will not suffer the dislocation of the boom town and it will have long term stability.

Although agriculture has had some significant economic difficulties, it will not have to fold up its tent and leave town. Agriculture is the only major industry that continually creates new wealth. Only agriculture can sustain its resource base; all other industry depletes non-renewable resources.

Governor Norman Bangerter

When a non-renewable resource is economically depleted, a substitute resource is used and another cycle of the boom and bust economy begins.

However, agriculture is a renewable resource only if we invest in the care and conservation of its resource bases, soil and water. No civilization that failed to care for its soil resources has long survived. The parched landscape of Northern Africa was the cradle of civilization, once a productive agriculture flourished there. Now it is an ever-expanding man-caused desert.

Utah undertakes initiatives

The Utah Department of Agriculture is three years into a twenty-year soil and water conservation plan. A revolving loan fund which makes it possible for farmers and ranchers to invest in conservation practices is the central element in the twenty-year plan. The creation of the Agricultural Resource Development Loan Fund (ARDL) represents a major change in the Department of Agriculture.

Traditionally, the Utah Department of Agriculture, and the departments in most states, have been essentially regulatory agencies. Three years ago, 95% of agriculture's budget went toward the regulation of the industry. We have maintained the commitment to provide the level of regulation required to protect public health, consumer interests and to assure that unfair business practices are not allowed to flourish and compete with those that provide consumers with wholesome, correctly labeled food products.

In addition to the ARDL program, the Department of Agriculture has recognized its role in the maintenance and development of Utah's rural economy. The Department works closely with Utah's Department of Community and Economic Development and the state's universities in order to assemble the expertise to promote job-creating economic expansion for the rural communities and the entire state.

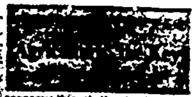
The introduction of new, high value crops into some areas of the state will allow agriculture to remain as a profitable and essential part of the basic economy of rural Utah. The joint efforts of the departments of Agriculture and Community and Economic Development have made possible the beginning of a grape industry in the economically depressed southeastern portion of the state. We

are assisting in the identification of other high value crops that could thrive in Utah, such as pistachios.

In addition to high value crops, we are pursuing the development of the value-added industries that can be associated with the production of agricultural commodities. The value-added industries of food processing and packaging are an appropriate way to expand the economic opportunity associated with agricultural production.

Benefits to businesses

The enhancement of the rural



economy through the development of high value agriculture and the addition of the value-added industries that go with agriculture, along with the protection of the continued productivity of our rangelands and the livestock and dairy industries of the state, will provide a substantial benefit to the businesses along the Wasatch Front. The Salt Lake area is a major wholesaling and distributing area for the Western States; as such, it benefits from the prosperity of the rural communities that produce the state's agricultural products. Furthermore, the Wasatch Front provides the goods and services which agricultural enterprise requires.

Marketing critical

A critical component in the improvement of the agricultural economy is the marketing of the products of agriculture. Most of Utah's producers are too small to be able to mount their own major marketing operation, particularly when the special requirements of export trade are considered.

The Utah Department of Agriculture has begun a marketing effort. Initial overtures to the markets of Western Europe and the Pacific Rim nations suggest that cultivation of these markets will be an investment with great potential for return to Utah's economy.

We are just beginning to realize the importance of the market within the state as well. Many Utah producers will be able to improve profitability by selling to the expanding population along the Wasatch Front. To date, little has been done to make the consumer recognize the benefits that go with buying locally produced foods. The Department will be undertaking a "buy Utah" campaign that will promote the economic advantages and desirability of Utah products for consumers.

In conclusion, the future of agriculture in this state is not bleak, but it will be different from what we have experienced in the past. We are at a threshold of expansion in production and marketing and are committed to the development of our great agricultural resources. Thank you.

Control Data WORLDTECH® Services

Community Enterprise Program

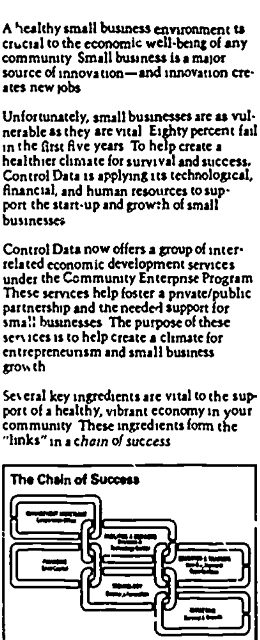
A healthy small business environment is crucial to the economic well-being of any community Small business is a major source of innovation—and innovation creates new jobs

Unfortunately, small businesses are as vulnerable as they are vital Eighty percent fail in the first five years To help create a healthier climate for survival and success, Control Data is applying its technological, financial, and human resources to support the start-up and growth of small businesses

Control Data now offers a group of interrelated economic development services under the Community Enterprise Program These services help foster a private/public partnership and the needed support for small businesses The purpose of these services is to help create a climate for entrepreneurism and small business growth

Several key ingredients are vital to the support of a healthy, vibrant economy in your community These ingredients form the "links" in a *chain of success*

The Chain of Success



The six crucial links in a chain of success for small business start up and growth comprise these small business support services

- **Management assistance:** Skilled personnel with the expertise to help new enterprises start, survive and prosper
- **Financing**· Access to seed capital or start-up equity capital
- **Facilities and services.** Affordable rental space, office support services, equipment, and other small business services
- **Technology:** Business formation assistance and access to know-how
- **Education and training.** Management education as well as training/re-training for new employment opportunities
- **Marketing:** Assistance in identifying new and expanding markets

A Program that Gets Results

Community Enterprise Programs have been effectively implemented in the U S and abroad They have proven in actual practice to produce tangible and demonstrable results

The Community Enterprise Program is action-oriented The entire community—public, private, and educational sectors—contributes to the Program and shares in its success Together, strategies are defined that lead to solutions, and specific plans are developed to implement those strategies

Control Data consultants have the expertise and experience needed to effectively work with your community and business leaders to foster the growth of business

Community Enterprise Programs can be successfully accomplished in an individual community or in a consortium of communities The services effectively complement any existing programs you may already have for economic and industrial development in your community

The benefits accruing to your community from the formation of new enterprises are job creation and an exceptionally high return on your initial commitment

The Process

Community Assessment and Strategy Development

Working with your community leaders, Control Data analyzes the business community to identify components of the small business support services known as a *job creation* network.

From this analysis, we assist in developing a strategic plan which capitalizes on existing resources and outlines the development of additional support services

The community analysis places particular emphasis on several key components small business financing (seed capital and/or start-up capital), management assistance and affordable facilities

Job Creation Network

A local *Cooperation Office* is the important first step in implementing the job creation network Its purpose is to provide *technical and management assistance* to new companies Experts from government and business share their experiences with small business owners on such topics as business plans, product evaluation, marketing tactics and sources of financial assistance.

The Community Enterprise Program will identify these important local management and technical resources and help establish the Cooperation Office as the focal point of the job creation network

Affordable *facilities* (office and manufacturing space) plus *support services* are critical to the success of start-up enterprises. Control Data's concept of a *Business and*

BEST COPY AVAILABLE

Technology Center (BTC) provides both an encouraging environment and the vital services needed at the start up stage As part of the Community Enterprise Program, Control Data is prepared to deliver a license to operate a Business and Technology Center which would be locally owned The licensing program provides instructions to establish and operate a BTC, including site selection, facility design and service package assistance, manager training, and marketing

A third key element of the job creation network is assistance with *financing*—particularly for business start up Formation of a *Seed Capital Fund* and identification of other financing is pursued concurrently with the development of the Business and Technology Center and the establishment of the Cooperation Office.

Additional Services

Optional business creation services which can be a part of your Community Enterprise Program include

- Assessment and training courses for entrepreneurs
- Analysis of what types of businesses are best suited for success in your community
- Identification of businesses that are interested in locating in your community
- Identification of technologies available for new and existing businesses from local industry and universities

Community Prerequisites to a Successful Program

A successful Community Enterprise Program relies heavily upon the active participation of community members and leaders from the public, private, and educational sectors Three key ingredients are necessary before any community should undertake a program of this importance.

- Commitment to support the entrepreneurial process in the form of financial and other required resources
- Leadership and authority to coordinate the job creation network implementation.
- Commitment to assume program management and ongoing responsibility for the program

The Time to Act is Now

A healthy economic climate is not due to accident or coincidence. It takes extensive community cooperation and expert developmental assistance The Control Data Community Enterprise Program can be your first step on the road to economic well being

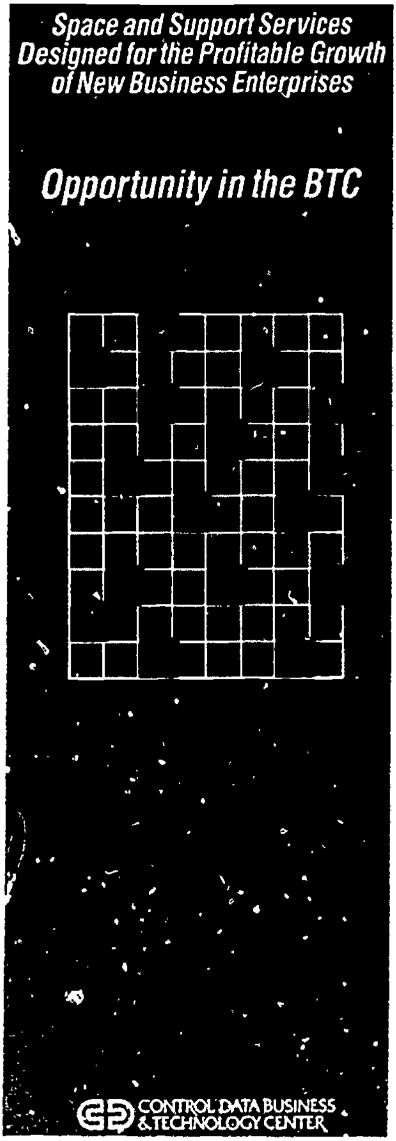
For Further Information

To find our more about WORLDTECH'S Community Enterprise Program, and to find out how to share in its activities and benefits, write:

Control Data WORLDTECH
7600 France Avenue South
Edina, MN 55435 U.S.A.
Phone: (612) 893-4650
800/328-1870
TWX: 910-576-2978
Telex: 290435

Literature on Other WORLDTECH Services
- Technology Marketing Service
- Consulting Services
- WORLDTECH Network
- Industrial Quest for Technology Program
- Technology Transfer Management
- Information Required for Technology Marketing and Search Services

CONTROL DATA WORLDTECH, INC.
a Control Data Company


Space and Support Services
Designed for the Profitable Growth
of New Business Enterprises
Opportunity in the BTC
CONTROL DATA BUSINESS
& TECHNOLOGY CENTER

Success Starts With An Idea.

Success Grows at a Business and Technology Center

Today's economic climate challenges businesses of all sizes in nearly every segment of the marketplace But for the innovative entrepreneur, such challenges won t get in the way of starting or expanding a business

The entrepreneur looks for the environment and the resources that can turn ideas into a business—a business that can become a profitable, growing enterprise

The environment and the resources need for profitable growth are available at the Control Data Business and Technology Center (BTC)—a place that's more than just another building with office space to rent

The BTC is a vital component in Control Data's *network approach* to the successful start-up and growth of small business The other components are management assistance, financing, technology, education and training, and marketing

BTC Services™ A Big Difference

The Business and Technology Center offers a total package of BTC Services and the support products your business needs for start up and growth

- From financial advice and financing for qualified applicants to word processing
- From shipping and receiving services to business planning assistance
- From telephone answering to worldwide technology marketing services
- From copying and duplicating services to both network and microcomputing services
- From group life and health insurance to furniture rental

And theres more The BTC brings to a new business the perqs, benefits and economies of larger, long-established corporations

Designed for Success

Small businesses are the creative core of technological innovation and provide up to 80 percent of all new jobs in the United States But the sad fact is that, by most estimates, four out of five new businesses fail within five years

At the Control Data Business and Technology Centers, those numbers have been turned around Since the first BTC opened in 1979, more than 80 percent of the businesses that have operated in the Centers have survived and are growing.

Each BTC has a full line of services and resources that can mean success for your business. Visit us Take a walk-and-talk tour. We think you'll be convinced that this is the environment that will turn your ideas and enthusiasm into a business success

And, Most Important...

The BTC is a community of entrepreneurs, a special peer group of determined, innovative business people The synergism generated by that group is an essential part of the BTC's design for your business success

BTC Services To Help You Reduce the Risks of Doing Business

BTC Services, resources for young businesses on the grow, are readily available at the Center—at your option—to help your business deal with risks BTC Services are ready to help you

- Increase sales and plan marketing strategies
- Maintain tighter control over your cash flow
- Find opportunities for expansion and profit through technology transfer and licensing
- Develop plans for your business's future
- Increase employee productivity and improve employee relations
- Understand and deal with government regulations that affect your business
- Take advantage of the information data bases that can help your business
- Use education to increase management and technical skills
- Find the specialized talent you need as your business grows and expands
- Make financial plans and decisions that will allow optimum growth

The risks are there and always will be But at the Center, you'll find the resources to keep those risks down to manageable size

A Comprehensive Selection of Business Facilities and Services

Economies of scale enable businesses at the BTC to use resources usually unavailable or unaffordable to smaller businesses

There's a modern, flexible office and manufacturing space—the right amount of space for your needs now plus room to expand as your business grows Conference rooms are available for special meetings The attractive lobby and a building receptionist make visitors feel welcome

Copying, word processing, phone answering, and other secretarial/clerical help are available when you need it deferring costly investments in extra staff

Computer-based training helps improve business, management, and technical skills The computing resources of Control Data are readily available

BTC Services include technology marketing services—matching technologies to the needs of new and established enterprises Professional business and technical consultants are ready to serve Center tenants on an as-needed basis

Many of these facilities and BTC Services are a part of the standard lease agreement Others are available when needed on a fee-for-use basis

Property Services

Each Center has available, at reasonable lease rates, attractive, convenient and flexible space to house many kinds of businesses—from one-person offices to light manufacturing.

Some of the basic BTC Services include

- Layout and space design assistance from single-office needs to manufacturing areas
- Basic utilities (heat, air-conditioning, and office-level electrical) *
- Custodial service* and general maintenance
- Building receptionist (provides building information, first-level security, and facilities scheduling)
- Security system for controlled after-hours operations
- Scheduled use of conference rooms
- Control Data PLATO* computer based education course on business management
- On-site building management professionals
- Library and information center
- Entrepreneurial club
- Tenant network directory

In addition to these basic BTC Services, small business tenants may also have access to other optional services and equipment such as**

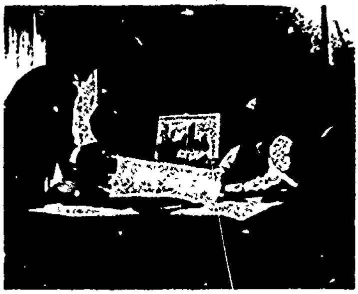
- Furniture rental
- Telephone answering service
- Shipping and receiving
- Postage and mailing services
- Word processing
- Secretarial/clerical services
- Copying and duplicating services
- Equipment rental
- Computer services
- Short-term office rental (part time day, week month)
- Telecommunications facilities
- Group life and health insurance
- Telex
- Catering
- Notary
- Technology and information services
- Special seminars

*May not be included in manufacturing leases
**Availability of some services may vary

Business Planning Assistance

Pursuing profitable growth while facing the difficu. lems of changes in markets, products, techno'c, management is typical for the vigorous small business. Solving these problems often requires the assistance of experts

Through the Business and Technology Center, experienced consultants are available to work closely with entrepreneurs in areas such as general management, strategic planning, communications, or human resources. Together, the business and the consultants can develop a workable, comprehensive plan for a new or existing business



And, too, consultants can assist in the all important follow-through to help your organization stick to the plan, or provide alternatives when needed

Management Skills Training

Control Data PLATO computer-based education has been tested and proven in business and industry throughout North America ' West Europe An extensive library of easy-to-use microcomputer courses provides effective development programs in many areas The course on business management, *New Directions for Managing Small Firms*, covers

- Planning How to Grow Your Small Business Profitably
- Managing Operations and Procuctions
- Marketing Management for Small Business
- Managing Short-term Financial Operations in Small Business
- Managing People in Small Firms
- Preparing for Success in Small Business

Business Computer Services

To maintain efficient and profitable business operations, BTC Services includes state-of-the-art computer hardware and software support in areas like accounting, forecasting, and other business applications

Data processing applications for these and other administrative tasks include

- Payroll
- Job costing
- Inventory control
- Order entry
- Accounts receivable
- Accounts payable
- General ledger accounting

These applications are available on a shared microcomputer, making computer services available to almost any size business Similar applications are also available through a computer network

Technical Computer Services

Control Data CYBERNET® Services is a worldwide remote computing network providing computer applications in areas such as architecture, engineering, construction, utilities, manufacturing, energy, and petroleum

In addition to the applications, there are useful information data bases One of these, TECHNOTEC®, provides information on available technology which can be used to improve current products or invent new products

Other information available in data bases includes trading information such as current purchase requests from other countries, 60,000 potential customers for U S exports, and who buys what within the U S

Although the data bases are easy for the average person to use, a search-and-report service is available for those who do not wish to spend their own time searching computer data bases

Financial Services

Cash flow financing, tax regulations, and other financial matters are an ongoing concern of businesses Among the financial services usually available through the Center are

- Banking relations
- Lease base financing
- Venture capital
- Receivables financing
- Tax consulting
- Inventory financing
- Accounting
- Risk management
- Small business loan programs
- Business planning assistance

Other Business Services

As a business grows often specialized expertise is needed When it isn't cost-effective to employ an expert permanently, the following services may be available through the Center

Personnel

- Recruiting
- Procedures development
- EEO/AA requirements
- Compensation planning
- Benefits adminstration
- Labor relations
- Employee counseling programs

Professional Support

- Strategic and business planning
- Marketing and sales research, strategy, communications
- Technology management assistance

Technology Marketing and Development

In order to link the primary source of U.S innovation (small businesses) with the primary source of new technology (the research facilities of universities, government and industry), the BTC offers programs to encourage technology transfer—matching technology to the needs of new and existing enterprises

Often, the technology a business needs is available somewhere else in the world. Technology transfer can save the time and expense of reinventing the wheel. Your business may have a technology that could be licensed for use in other industries Through technology marketing and enterprise matching, your BTC can be of assistance

Each Center offers conference and teleconference facilities, terminals to use in data base searches, and special assistance for entrepreneurs in starting a business

Information Center

The Center has a business and technical library service, providing automated literature searches The services of information specialists are available, too, to answer questions ranging from market share information to telecommunication and highly technical queries

The BTC Services, equipment and assistance may vary at some Business and Technology Centers. Your local Center manager can tell you what is offered.

Control Data Corporation: A Big Commitment to Small Business

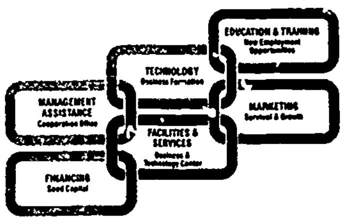
Control Data, a worldwide computer and financial services firm with annual revenues of over $4 5 billion, has made a strategic commitment to helping new and growing businesses survive and prosper

By applying our considerable resources, business expertise, and advanced computer technology to organizations at the local level, we are able to provide critical support and assistance to new and emerging businesses—and do it in a cost-effective manner

And, by helping small businesses meet the challenges of the 1980s, Control Data is helping local communities create new jobs

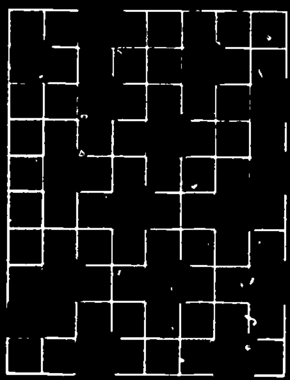
William C. Norris, Chairman and Chief Executive Officer of Control Data put it this way

"Control Data products and services to help small businesses and small farms are the building blocks of a systematic, comprehensive program involving many parts and participants, both inside and outside of Control Data. Each link in the program—education and training, financing, technology, efficient access to facilities and services, marketing and management assistance—is forged into a chain of success for our country's small enterprises."



Big Opportunities Through Small Businesses In Your Community

The Job Creation Network



CONTROL DATA

The Significance of Small Business

To create the largest number of new jobs in an era of limited resources, it is important to utilize our existing human, technological, and financial resources more effectively and efficiently. The best way to accomplish this is through public/private partnerships that generate new jobs by enabling the startup and profitable growth of small businesses rather than through programs that entail major new state outlays in the current period of overburdened budgets

- During the last decade, small firms generated 80 percent of all new jobs in the United States [1]
- Small, young firms generated about 80 percent of all replacement jobs [2]
- The firms that generate the most new jobs are the most difficult to reach through conventional policy initiatives [3]
- Small firms produce 24 times more innovations per research dollar than large firms.[4]
- In difficult economic times, when large companies tend to reduce employment, there is an increase in small business start-ups, which translates to critical job creation in declining areas

1 *The State of Small Business: A Report of the President*, Transmitted to the Congress March 1982

2 David L. Birch, *The Job Generation Process* (MIT Program on Neighborhood and Regional Change, Cambridge, MA 1979)

3 Ibid

4 Neal R. Peirce and Carol Steinbach, "Reindustrialization on a Small Scale — But will the Small Business Survive?" in *Expanding the Opportunity to Produce: Revitalizing the American Economy Through New Enterprise Development*, ed. by Robert Friedman and William Schweke, The Corporation for Enterprise Development, 1981

Small Business: Where the Jobs Are

In recent years there has been a growing realization that small business plays a much stronger role in strengthening our economy than generally understood

A 1979 study by David Birch of the Massachusetts Institute of Technology found that small businesses—not large corporations—are the leading creators of new jobs It was also found that small businesses have an unusually high failure rate—about 80% over the first five years

There are many reasons for this alarming statistic but the most frequent causes of failure are lack of available capital, strong management support and technical assistance.

Many community leaders now realize that small businesses are the best source for job creation, and are taking steps to help establish and support new enterprises. Although these efforts are well intentioned, in many cases their effectiveness is blunted by a lack of coordination, experience and resources

Control Data Corporation has recognized the problems faced by small businesses and the difficulty that communities face in systematically encouraging small business start-up and growth As a result of recognizing the need to better coordinate a community's resources, Control Data has developed a comprehensive approach to minimize these problems We call it the Job Creation Network.

The results of implementing comprehensive, community-based job creation networks have been impressive Over the past five years, Control Data has worked with more than twenty-four communities of all sizes, both in the U S and abroad, in establishing these networks To date, more than 700 new and growing businesses have benefited from these efforts, and more than 5,000 persons have been placed in jobs

A Community-Wide Program That Gets Results

The Job Creation Network is designed to create a healthy environment for new and existing small businesses And that can mean new jobs and economic growth for the community

The Job Creation Network is a process that

- Stimulates the start-up and growth of small businesses, recognizing the economic diversification and stability that small businesses provide a community
- Permits a community to manage a job creation effort that is consistent, responsive, and ongoing
- Involves community leaders, business leaders, public sector organizations, educators and others who are committed to their community's economic future
- Stands outside, but cooperates with, the economic development programs sponsored by local, state, or federal government regardless of changing political conditions
- Monitors the community's economic climate—not just in response to threatened plant closing or business relocation—to provide ongoing economic development strategies

Three Vital Components for Success

The Job Creation Network is based on three components essential for small business success. They are:

- Management assistance
- Financing
- Access to affordable facilities and services

Management Assistance

The focal point of the network is the *Cooperation Office*. The *Cooperation Office* is a public/private partnership that provides management and technical assistance to new businesses. The office is managed locally. Funding for ongoing operation is provided by the public sector, labor unions, churches, private citizens, foundations, and local businesses.

The concept is simple. An entrepreneur has an idea for a new product or service and wants to start a company. The *Cooperation Office* helps evaluate the business idea, develop a business plan, assemble a management team, and obtain financing.

The permanent staff is small, but the *Cooperation Office* draws on a volunteer advisory panel of engineers, accountants, lawyers, scientists and executives to evaluate and help prepare business plans—and to identify and recommend candidates for the management team. The chances of success are substantially increased because of this expertise.

The *Cooperation Office* represents the interests of the entire community in building a stronger economy. Therefore its creation should be the result of a cooperative effort, by a working-group-representation of those broad-based interests.

Members of the working group typically come from:

- Local business and industry
- Financial institutions
- Labor unions
- Business service clubs
- Churches and private citizen organizations
- University and college faculty
- Government agencies

The initial and continuing leadership for a *Cooperation Office* must come from the private sector of each community. This leadership reinforces the practical, problem-solving goals of the group, and gives it continuity.

Financing— Seed Capital Fund

New companies desperately need financing during their initial formation and early development For small companies, this is often the time of greatest need, and highest risk It is also the time when capital from conventional sources, such as venture capital funds and banks, is usually unavailable because of the unproven track-record of the new business

The *Seed Capital Fund* is designed to provide the initial cash to successfully launch the new business The *Seed Capital Fund* frequently works in tandem with the Cooperation Office by providing that much-needed infusion of capital for prototype development and/or business start-up

The *Seed Capital Fund* is established by investments secured locally and is administered in a manner that supplements the community's job creation objectives

Access to Facilities and Services— Business and Technology Center

After addressing management and financial needs, a community must then look to providing ongoing support and a place where the new businesses can locate The *Business and Technology Center (BTC)* is intended to create an atmosphere conducive to innovation, which helps both the small business owner and the community The *BTC* is usually owned and financed locally

On a fee-for-use basis, the *BTC* offers small businesses office and manufacturing space, and a wide variety of technical, administrative and marketing resources

The new businesses located in a *BTC* can contribute to job development In addition, the community gains property tax benefits And, the *BTC's* small business tenants may become valuable customers of other businesses in the community

Although all *Business and Technology Centers* provide the same basic core services, no two centers are exactly alike Site selection and design must meet local business and community needs

Reflecting a community's unique small business support requirements, each BTC normally provides some combination of the following services.

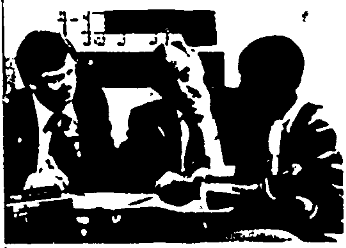
- Flexible space—single offices to light manufacturing space
- Space design and layout assistance
- Library and information center
- Computer-based management education courses
- Conference room(s)
- Professional building management
- Business planning assistance
- Financial planning assistance
- Accounting planning assistance
- Telephone answering services
- Secretarial/clerical services
- Word processing services
- Mailing and postage services
- Furniture rental services
- Equipment rental services
- Part-time office programs
- National contract discounts
- Teleconferencing facilities
- Group life and health insurance
- Janitorial service
- Reception service
- Suite identification
- Parking
- Copying services
- Telex services
- Consulting services
- Technology searches
- Technology marketing
- Computer services
- Seminars
- Entrepreneurial club
- Catering
- Pick-up deliveries
- Auditorium facilities
- Temporary help
- Notary
- Shipping & receiving

How to Establish a Job Creation Network

Establishing a Job Creation Network begins with a *community assessment* Control Data contracts with a community to help establish the three components of the *Network*—management assistance, financing, and the Business and Technology Center A license to operate a Business and Technology Center is included in the initial contract fee for the Community Assessment

Identifying Local Resources

The community assessment identifies local resources that are currently providing assistance to small businesses



The assessment process highlights the community's ability to support small business development At the conclusion of the assessment recommendations are provided to permit the establishment of the Job Creation Network

During the assessment information gathered is used to recommend additional services to be offered in the BTC

Real Estate Analysis

The assessment phase permits Control Data staff to review sites or buildings being considered for use as a Business and Technology Center Generally, recommendations are provided for at least two suitable buildings

The BTC Licensing Program

Control Data has spent years developing the technology and expertise, and in proving the effectiveness of the BTC concept in job creation Control Data is now making this expertise available to communities and developers through a licensing program

By undertaking the development of a licensed BTC, a community can share in an international business network for the just-beginning entrepreneur. As part of the worldwide network of BTCs, the entrepreneur may have access to broader markets and becomes part of the ever-expanding network of BTC management expertise

The licensing program that Control Data has designed contains four major elements

- Personnel selection
- Renovation/construction technical assistance
- The BTC Service program
- Initial and ongoing instruction and training in management and operation of the BTC, including relationships to other network elements

Personnel Selection

The manager is the key to the success of the BTC project Control Data recognizes that the selection of the right individual for this position is vitally important and is prepared to help in the recruitment process

After the manager has been selected, Control Data staff provides a three-week instruction program Instruction is delivered in a Control Data BTC, as well as on site at the licensee's center Instruction includes interviews, discussions, visual presentations, and computer-based education, using Control Data's PLATO® training curriculum

Training covers topics that have proven effective for successfully managing a BTC

- The philosophy of small business assistance
- The role a BTC plays in new business formation and survival
- Property management as it relates to small business
- BTC space marketing
- Contract and leasing procedures as they relate to space marketing
- The BTC Service program
- BTC Service marketing

- How to develop a staffing plan for the center that relates to operations, space marketing and service development and marketing
- Public relations and advertising principles
- Use of the PLATO library of small business courseware
- How to work with the support services available for the small business
- Major components of an accounting system for the BTC
- Review of additional Control Data small business services such as Factfinders, Business Advisors, WORLDTECH, Commercial Credit and Business Centers

Renovation/Construction Technical Assistance

Technical assistance is provided by Control Data staff during the design and development and/or renovation phase of the BTC

Control Data will help design a services area within the BTC if required Assistance also includes participation with the licensee's architect/engineer/contractor in developing an understanding of the BTC concept and space layout The result is a facility that reflects the unique needs of the newly formed small business

Management and Operation Program

In preparation for the official opening and continuing operation of the BTC, Control Data provides the licensee with a *management and operation program* The program consists of a set of manuals and computer-based training that provide direction in the following areas of management responsibility

- Start-up
- Property management
- Products and services
- Marketing
- Accounting
- Network relationships
- Personnel
- Policy and procedures
- Forms and contracts

Continuing Support for the BTC Licensee

After the licensed BTC has begun operation, Control Data provides ongoing support to help assure a successful operation This support includes technical assistance to both the licensee and the BTC manager, on-site evaluations, and improved and expanded small business support services

A Commitment to the Success of Small Business

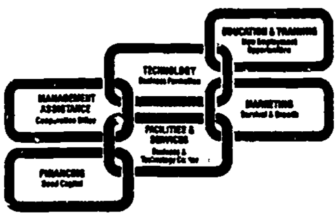
Control Data is a worldwide computer and financial services company with revenues of more than $4 5 billion annually, selling products and services in 47 countries Through the Job Creation Network, Control Data has made a strategic commitment to helping new and growing businesses survive and prosper.

Helping small businesses meet their special challenges is a part of Control Data's corporate strategy of addressing society's major unmet needs as profitable business opportunities—a strategy that had its beginnings more than a decade ago

By applying our considerable resources, business expertise and advanced computer technology at the local level, we're able to provide critical support and assistance to new and emerging business—and do it in a cost-effective manner. In addition, a wide array of financial, insurance, and realty services are offered

Control Data Chairman and CEO, William C. Norris, states.

"Our strategy of looking at pressing social problems as business opportunities does not propose that business assume the entire responsibility for solving societal problems, but that business, primarily big business, provides the leadership and the management. The simplest, yet an important, program is that of fostering the start-up of new, small enterprises."



COOPERATIVE EXTENSION SERVICE

agriculture — 4-H — home economics

EXTENSION SERVICE
AND 4-H CLUB WORK
COUNTY AGENT, HOME AGENT

OFFICE, GETTYSBURG CITY AUDITORIUM
110 EAST COMMERCIAL
GETTYSBURG, SOUTH DAKOTA 57442
PHONE 605 765-[illegible]

April 12, 1985

Senator James Abnor
South Dakota
SH-309 Hart Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Abnor,

I do appreciate being asked to be a part of your task force. I wasn't able to attend one of your area meetings but I have visited with several local people and tried to get a handle on what the current situation is and what is expected.

In your letter of March 25, 1985 you asked us to answer three questions so I have divided this report into three sections devoted to answering those questions.

Having been very involved with the farm economy for the last two or three years I feel two very important facts have emerged and until we can separate these two factors a solution will be hard to find.

First of all rural America is wealthier than at any time in history, If we consider wealth as the ability to produce goods and services.

Second rural America has a money problem. Money is only a means of exchanging goods and services and the money managers are ripping rural America off.

It should be very apparent that this is not just a rural problem but a problem that effects every person that eats food, wears clothes and lives in a house.

I think it is obvious that somebody will farm this land and urban people are not going to be very concerned about who as long as they are well fed. The real question is will it be family farmers who farm it as a private business or the money managers who farm it with hired help?

I think rural America feels it is important to save the family farm and I hope this report will aid you in your fight to achieve that goal.

Sincerely,

Robert Garrity

Robert Garrity,
Potter County Agent

RG/ls

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PROPOSED FARM PROGRAM

Objectives:

1. To give economically depressed farmers an opportunity to salvage a family sized farm with a fair chance of future success.
2. To reduce land values to a level determined by the land's ability to produce based on commodity prices that are competitive on a world market.
3. To provide a one time government expenditure with no further cost for a "farm program".
4. To provide a voluntary program that would be used only by farmers really in need.
5. To provide more opportunity for troubled farmers to compete on a more equal basis with larger and/or corporate farms.
6. To allow farmers to compete on a world market.
7. To allow ag lending institutions to survive while the transition to a new way of farming structure is being made.
8. To help rural communities survive and even prosper.
9. To provide the opportunities for new farmers to get started in farming.
10. To encourage farmers to adapt to a new economic environment.
11. To discourage FmHA loans to farmers who do not have good management skills.
12. To provide assistance only to those farmers that are truly in need.

PROPOSED FARM PROGRAM

1. All present "farm programs" would cease.
2. Agricultural land would be valued on it's productive value using Soil Conservation Service land classifications, soil maps and other approved and/or available criteria.
3. Any "fragile" lands now being farmed would have to have approved conservation methods such as grass-seeding or terracing to be eligible.
4. Land that would be broken would have to meet S.C.S. requirements and would then be valued at its most productive level.
5. The program would be administered through the Farmers Home Administration (FmHA).
6. Once the productive value of the land has been established a "base unit" size would be established.
   Definition: A base unit would be the amount of land needed to provide a living for a family and to pay off a 100% mortgage on the land with current interest rates.
7. A grant would be given to reduce the current mortgage on the base unit to the established productive value of the land.
8. This base unit would be protected from any liens against the property (other than the balance of a lien by the current mortgager or FmHA), bankruptcy actions or any other legal actions for a period of five years and indefinitely for any liens, mortgager, etc. which are existant at the time of the initial participation in the program.
9. The farmer could own other land at the time he enters the program. If there was any legal action such as foreclosurer on this other land, no part of the base unit could be used to satisfy debts on this other land.
10. If a farmer would purchase new land after entering the program he would forfeit the protection on his base unit.
11. The farmer would not be sble to use the base unit as collateral for another loan during the five year period of the contract.
12. First time farmers or displaced farmers that wish to begin farming would be eligible for the same mortgage reduction grant as existant farmers on land they purchase.
13. Under no circumstances could the grant be used to pay off a mortgage that was incurred after a target date that would be set, so as to avoid land owners who might take out a mortgage in order to qualify for a grant under this program.
14. All grants under this program would have to meet approval of the local FmHA county committee.
15. The loan on the base unit which would be 100% of the appraised calue using the new procedure for evaluation could either be retained by the current lender assumed by FmHA or shared by the current lender and FmHA.
16. Limits for loans to one borrower from FmHA for land would be reduced to levels consistent with the new production valuation of the land inthe base unit.
17. Farmers with existing FmHA loans would have the option of maintaining their current loans or of participating in the program under the same guidelines established for other lenders.
18. Operating loans could be made in addition to the loans to buy land but limits on loans to one borrower would be reduced to reflect the actual needs of a farmer to efficiently operate the base unit up to 100% of that amount.

19. FmHA operating loans would not be renewed for borrowers who are not participating in the program.

20. Farmers that would elect to participate in the program and still retain any other land would be limited to FmHA operating loans for the base unit only.

21. The limit for operating loans from FmHA would be in affect for 2 years. After the second year that limit would be reduced 10% each year for any one borrower. Exception could be made in the event of natural disaster such as drought or insect infestation but at no time could the total loan to any one borrower exceed the original limits.

22. Lands subject to flooding would not be considered for a base unit so flood would would not be considered a natural disaster.

23. To be eligible for the program, a farmer must show intent to actively operate the base unit for a period of at least 5 years.

24. Only one base unit would be allowed per household.

25. The "bailout" portion of this program could be spread out over a 2 or 3 year period.

PROPOSED FARM PROGRAM

Justification

1. A large number of American Farmers (estimate 1/4 to 1/3) are in serious financial difficulty due to circumstances of an economy that was largely beyond their control based on sound financial practices of recent years.

2. The technical and productive ability of these farmers is a resource that the American people cannot afford to lose.

3. More debt (even at a low interest rate) cannot help a farmer unable to pay his current debts.

4. Current farm programs have contributed to the dilemna in the farm economy and other options are needed to reverse this trend.

5. Realistic land evaluation based on ability to produce is the only realistic solution to the farm economic problems.

6. Realistic loan limitations (both real estate and operating) are needed to prevent farmers in need of assistance from over-investment in machinery and equipment. This is a part of the current problem that occurred during the years of an artificial economy based largely on inflationary values.

7. This program would give farmers financial protection, for a period of time, to adjust to the new economic conditions.

8. This program would allow for the entry of new farmers and would increase rural population which would in turn help rural communities, schools, etc..

9. This would be a one time cost to the government and the pay back from savings in current farm programs would be accomplished in a relatively short period of time.

10. Agricultural manufacturers and suppliers would benefit with more farm population. However manufacturers may have to go through an adjustment period by switching to the manufacture of more but smaller equipment.

11. Already suffering rural businesses (including Ag Lenders would not have to bear the burden of bad farm debts.

12. FmHA's role would return to helping good young farmers get started rather than keeping poor farmers in business.

13. This program would fit in well with the current administrations proposed tax policies and could be an opportunity to eliminate tax laws that give an unfair advantage to large and/or corporate farms.

14. Many if not all of A.S.C.S. functions could be eliminated however this would probably be off set by increased need for Crop Reporting Services and Extension Services. S.C.S. programs may need to be revamped but total responsibility would remain about the same.

15. This program would give many farms the opportunity to stay in or enter farming but it would also eliminate those who do not make responsible management decisions in the future.

16. Being voluntary, the program would be used only by farmers that are truly in need of assistance and would be of no benefit to those who do not need assistance.

17. Lowered land values and reduced debts would make more money available which would help reduce interest rates.

18. Food prices would be determined by world markets. I would not forsee any drastic changes in food prices however, once this program had accomplished its goal, consumers would only pay once for their food instead of once at the grocery store and once as taxes to support farm subsidies.

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WEST RIVER
MENTAL
HEALTH
CENTER

PHONE: 343-7262

February 14, 1985

Dale Jahr
Joint Economics Committee
U.S. Senate
Washington, D.C. 20510

Dear Dale:

Here are my columns on Farm Stress and ag economics. Perhaps the following columns could be inserted in the record including my open letter to David Stockman:

"Zapping the Farmers in '85"
"Black Hats and White Hats"
"The Last and Hardest Lesson"
"The Courage to Start Over"
"The Tortoise and the Hare"
"Challenging Opportunities for Growth"
"Dark Clouds and Silver Linings"
"Doing Best Things in Worst Times"
"Farm Stress"
"Economics and the Rural Way of Life"
"A Rural Renaissance"

The others you can include if you feel they are appropriate. Thanks for giving me the opportunity to appear before your committee. I'm sorry the transportation arrangements fell through and I was not able to attend.

Sincerely,

Val

Val Farmer

enclosures

Sunday, December 30, 1984 | The Rapid City Journal 31

Dr. Val Farmer

Zapping the farmers in '85

I recently had an opportunity to interview a spokesperson for the World Cheap Food Policy for Political and Corporate Control Group, Dr. I. M. Accomspirator, on the economic outlook for agriculture in 1985. Here are some of his unusually candid thoughts.

Question: Dr. Accomspirator, what do you expect in '85?

Answer: 1985 will be one of our best years ever. We've got the farmers where we want them. At this rate, by the year 2050 I predict there will only be two farmers left in the United States ... and one of them is going to be in trouble.

Question: Doctor, could you expand on that a little? How did you get them on the run? I thought they were a hardy lot.

Answer: These fellows are pretty tough all right. The thing we do is to take advantage of their pride and their toughness. You see, these people are top producers and the pillars of their communities. It was their very aggressiveness and optimism that got them into trouble. They expanded, brought their children on board and watched in disbelief as interest rates soared, land prices fell and inflation was brought under control.

Now if you were a person like this, unprepared for a long siege of hard times, would you be prepared for the embarrassment of having to cut back, sell land and equipment, and let your neighbors know that you are in trouble? No, the easiest thing to do is to play ostrich and put your head in the sand and hope for a miracle.

Some of our toughest strong-willed producers keep it all inside and even won't tell their wives about their fears. Their blind spot is that they don't realize that it takes an even stronger man to admit a problem and face it head on.

Question: How does this reluctance to admit a problem work against them?

Answer: That's easy. If their debt load is high enough, the clock is ticking against them. The longer they wait to take action, the more their equity will erode to the point of no return and total liquidation is the only answer. The chances are that if they haven't looked at their financial problems squarely, they will avoid the lender and damage their relationship with him.

People get their best ideas when they talk out problems with others. As long as they won't face reality with courage and honesty, they shut themselves off from alternatives and options, friends and family, and even from own creativity and problem-solving skills.

Question: Besides dodging and ducking each other, what else do you like to see these farmers do?

Answer: Well I don't really feel they are defeated until they blame others. If they are caught up in "fairness" and blaming all the powers that be, they avoid the main problem of dealing with their own personal situation. As long as they think someone else is going to come along and fix it for them, they fail to zero in on the real problem — how to insure the survivability and profitability of their particular farm.

The fellows that get angry, hostile, bitter and spend their time complaining are spinning their wheels looking at industry-wide solutions. The problems that are going to sink them are not international trade policies or government programs but the financial problems of their own operations. If they define the problem wrong, there is no way they are going to solve it.

Question: What else do you have going for you?

Answer: Most of these fellows are so hidebound that they aren't going to make the changes they need to make. Family traditions about marketing, breeds, cropping decisions, irrational attachments to land and so forth are emotional issues. I love to see them make emotionally-based decisions.

If they don't incorporate modern techniques of financial management, they are goners. Up until two or three years ago, a fellow could get by without keeping good records. I'm telling you, the farmers that are going to stay in this game are going to have to be flexible, open to change and know the financial end of this deal.

Some of these guys take the fun money off the top, make no sacrifices in their standard of living and want to hold on to all of their status symbols of being good farmers. They figure because they work hard they deserve it. Someday they will wake up and realize that it is more than the federal budget that is filled with red ink.

Question: Do you have the lenders in your pocket, too?

Answer: It was better in the good old days when there were a few more "dumb" bankers around. A farmer could come in and pump him full of baloney and get them both in trouble. The casual days are over. Most people didn't realize how lucky they were to have had a strict banker.

The bankers who don't have the technical ag skills or management ideas to analyze and help an operation are being weeded out. The last few years has produced a shakeout of lenders by putting to a test their aptitude and knowledge. If we can get a bank in trouble, they are forced to back away from their borrowers regardless of merits of how their plans pencil out.

Question: Dr. Accomspirator, do you really think you're going to win this one?

Answer: To be truthful, just about the time I think I've got them on the run, farmers figure out how to cope and manage to hang in there. I figure I've got a chance this time because some of the younger farmers brought up during inflationary times haven't had to make any tough adjustments. I'm afraid if I don't get them this time, they may be able to stand about anything I'll be able to throw at them in the future.

Dr. Val Farmer

Black hats and white hats.

The movie "Country" portrayed bankers in the black hats and farmers in the white hats. In real life drama, there are usually no good guys or bad guys but bankers and farmers working together to accomplish mutual goals.

However, if we really got into it, we could find more than a few farmers and ranchers who give ample cause for bankers to take the actions they do. Farmers can choose the color of hat their banker wears and literally hand it to him to try on.

Here are some ways that farmers commonly allow their business relationships with their bankers to deteriorate to the point where the working relationship becomes strained and hardship is caused both to the farmer and to the banker.

1. Be secretive about your business affairs. Hide your problems as long as possible. Let him hear about your problems from someone else. Start major changes and spring them on your banker halfway through. Finally, be elusive. Miss appointments. Create a question in his mind about what you are doing.

2. Delude yourself. Operate in the dark about net worth, cost of production, debt to equity ratio, cash flow and living expenses. Sometimes the less you know, the better you will feel. Live on the same standard of living every year regardless of how the business is doing. Use your operating loan for living expenses if necessary.

3. If the banker puts pressure on you, give him some "pie-in-the-sky" figures and then get angry or resentful if he challenges you on your rationale. Hope for a miracle. Hang in there as long as you can even if it means dragging a few of your creditors down with you.

4. React negatively to any changes or management suggestions he might make. Tell him it is your equity and you intend to do as you please. Justify what you are doing and don't try anything new — especially if it is the banker's idea.

5. Jump into new things every year. Make major changes in your enterprise until you find the quick fix that will turn things around in a hurry. Get excited about every "get rich quick" scheme that comes along. Try a few business ideas outside of farming even if you don't have the background.

6. Blame the banker for your problems. Insinuate that he is personally responsible and is benefiting from your troubles. Don't take responsibility for your decisions. Blame everybody you can. It will make you feel better. Show your anger and resentment. Maybe you can intimidate the banker into going along with you.

7. Operate on other people's money as long as possible. Overdrafts are no problem. Ask for advances on your loan to cover any shortfalls. Let the creditors wait for their money until you absolutely have to pay. Your miracle will come through and nobody will get hurt.

8. Live recklessly and dangerously. Spend a lot of time at the town bar and bristle with anger if anyone suggests you have an alcohol problem. Gamble a little. Argue and fight with your wife. Chase around on her. Put out enough clues so the banker will hear and wonder if your personal problems are going to disrupt your farming operation.

9. If none of the above points are sufficient to drive your banker away, this one will put the nail in the coffin. When times get tough, start some creative investing with loan money and mortgaged property to turn your business around. Tell a few lies. Try a few dishonest things. After all, you mean well and after your ideas pan out, no one will ever know. Rationalize away your character and conscience.

The rules for having a good relationship with a banker are simple and can be implied from the list above. Most farmers are honest. They include the banker as a key member of their management team. They discuss changes well in advance and tell their banker more than he wants or needs to know. They are receptive to his advice and input.

The bottom line is a powerful measure of success. Farmers who are conversant about their financial status and goals will find their banker appreciative and receptive. Farmers will likewise recognize and appreciate the trust and confidence placed in their management ability when the bank risks their money with them. They return that trust by sharing freely the concerns and developments that affect the operation.

Of course there are sometimes legitimate reasons for problem relationships with bankers. Not everybody hits it off together. The farmer may lack confidence in the expertise or understanding of a particular banker with regards to his situation. When this happens, the farmer needs to find a relationship with a banker where there is mutual trust and confidence.

Having a good working relationship with a banker is a major key to success in agriculture. By observing a few sound principles of business etiquette, the farmer can prevent the banker from ever having to try on the black hat.

Before we blame the banker, let's check and see what color of hat we are wearing.

Dr. Val Farmer is director of the rural enhancement program at the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.

Sunday, January 6, 1985 — The Rapid City Journal 17

Dr. Val Farmer

The last and hardest lesson

A rancher was in trouble. He had fought, scratched and juggled to make ends meet. Then everything seemed to spin out of control. His short-term lender confronted him with his cash flow problems, refused to go any further unless there was debt restructuring, and suggested a partial liquidation of land and machinery.

Admittedly he did not handle it well. He blew up and said some things he shouldn't have said and stormed out of the bank. He shouldered the whole burden alone. He had never been in this spot before. He was scared and he couldn't figure out the answers. His mood fluctuated between anger, frustration, guilt, fear, depression, irritability and a state of shock. Life was a succession of anxious days and sleepless nights.

He didn't want to sell his income-producing resources . . . how else could he get out of the hole he is in? Wasn't this "next year" country? A good year and good prices would solve a lot of problems. Aren't the good years and the bad years supposed to even themselves out?

Off-farm employment? What off-farm employment? Even if there were jobs, they wouldn't make that much of a dent in his problems. Besides, he had always regarded working for someone else as a form of slavery. Ranching was a full-time job as it was. How would he fit in a second job? Did life have to be this hard?

What about his image in the community? His pride? Facing his friends and neighbors? More importantly, how did he feel about himself? Had he failed to measure up in some profound way? Was it his management? How could he have forseen this "crunch?" Wasn't he following the conventional wisdom for getting ahead? Wasn't he a good rancher and a hard worker?

The questions and self-doubts were not uttered to anyone else, not even his wife. He went underground, dodging and ducking neighbors, avoiding the banker and hiding from his own feelings and reality. These were the dark days, the hard days. Or were they months? They seemed like an eternity.

Finally, he woke up. He started talking. He shared his fears and dilemma with his wife. He then shared honest facts and figures with a trusted friend and then with a consultant he sought out from outside his community. He wanted a second and third opinion. Just talking to others helped him come up with alternatives and options. He started to be enthusiastic and to have hope again, not blind hope but hope based on reality.

His next job was to repair his relationship with his lender. He remembers well how he started that conversation: "I was upset and frustrated. I'm sorry. I understand you were only doing your job. What I'd like is for us to sit down and figure out how we can both win at this thing."

He then laid out the hard facts with a new financial statement. He was willing to bite the bullet. He was willing to cut his debt load. He was willing to listen to the banker's ideas. He presented his own ideas with energy and enthusiasm and got the banker caught up in his motivations and needs. There was a way. Together, they would make it work.

He invited the banker out to his place to see the situation for himself. He also wanted the banker to see first hand that he and his family were living a disciplined life and that they were making the sacrifices to live within their means.

Though he didn't feel like it was necessary for himself, he had heard of cases where a financially distressed rancher would bring a friend or consultant to the meeting with the lender to help restore communications and lay out the options.

The banker said how grateful he was to have communications reopened. The conflict was in the past and he was willing to start over. Time had been working against him, too, and he was even more in the dark than his rancher/client. It felt good to be working together as a team again.

The banker said that he and his colleagues are always open to communications. He pointed out that sometimes a rancher imagines himself to be in grave legal difficulties because he diverted payments that should have gone to the bank to pay off other ranch expenses. He then lives in fear of the banker or being found out in some way. Most of these problems can be worked out through honest acknowledgement and a fresh start. The most important thing, he said, was to get the communications going again and to work together with real facts and figures.

Looking back, the rancher wondered why it took him so long to open up about his problems. What did matter was that he had the courage to face his problems and he had learned not to carry his burdens alone. No longer would he allow his fears and pride from keeping him from taking charge of his problems. It was the last and hardest lesson to learn in ranching.

Dr. Val Farmer is director of the rural enhancement program at the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.

Dr. Val Farmer

The courage to start over

The memories were intense for this particular man. The movie, "Country," brought back the anguish and turmoil of the forced liquidation he had gone through two years before. His story was a little different and probably not as good theater, but more hopeful than the movie version.

He remembered the sleepless nights, the days of denial and despair, the railing against facts he could not refute, and his frantic running to and fro trying to stave off the inevitable. If there was a straw, any straw, he would grasp it only to find that it was merely a straw and not an answer.

He recalled his struggle to make sense of what was happening to him and his family. "Why did it happen?" "Whose fault was it?" "Why doesn't God intervene?" "Aren't we good people?" "Doesn't He love us?"

His was a simple mistake. He, like so many others, had bet on the inflationary psychology of the '70s and borrowed heavily to expand. There were no warning voices. The banker, reading the same signals, was more than helpful. Now, with the 20/20 vision of hindsight, he could see the error of his ways.

At first, it was easy to blame himself or to blame God or the banker or politicians or anybody involved in the agri-marketing system. He finally concluded, "I do not deserve this." He certainly had the skills and motivation to succeed in farming, but the financial snowball he had started rolling down the hill could not be stopped with hard work or with ideas that, in themselves, didn't cost money to implement.

He felt he was the victim of circumstances, of forces much larger than he or his neighbors or even the President had the power to control. He would no longer rob his own self-esteem by blaming himself for circumstances beyond his control.

Sure, he imagined the whispers of his friends and neighbors about his "poor management." He himself had been party to such conversations. Perhaps that explanation was the most consoling to farmers who are trying to avoid the facts the same way he was. However, the poor managers had already been weeded out and now the farm economy was affecting families that one would never expect.

The stories of perseverance and tenacity presented another kind of obstacle to overcome. His problem wasn't perseverance — it was doing the only thing he could do to stop the hemorrhage of debt and interest. The wise and comforting counsels and expressions of faith for times of trouble and despair were fine, but they didn't solve the problem.

He had to contend with his own pride and fear of humiliation in admitting defeat. He had to face fears of the unknown and dream new dreams he did not want to dream to take the place of the cherished dream he was losing. He looked failure in the face and summoned a new kind of courage — the courage to move forward. Until he made that decision, his pain, guilt, discouragement and isolation were crushing and suffocating.

He was not too old and tired to start over. He stopped looking for fairness and justice, stopped feeling sorry for himself, stopped being trapped between bitter rebellion and beaten resignation, and stopped being a witness against God's injustice. He stopped looking backward and faced the future.

He recalled saying to himself, "Now that this has happened, what am I going to do about it?" He prayed for strength and comfort instead of miraculous intervention. From that point on, the yesterdays became less painful and the tomorrows less fearful. He put one foot in front of the other and picked up the pieces that were left to be picked up.

The farm sale was traumatic. It was like having his dream and work of a lifetime die in front of him. Not only die, but literally be dismembered and scattered to the four winds. As hard as it was, however, it was not as hard as the night he faced the demons within himself and gave up his dream voluntarily and irrevocably.

Now that he has been through this, he wondered which of his neighbors could be going through what he went through. He had seen men and families crumble under stress just as the movie had portrayed. Who do people talk to in circumstances like these? He remembered how alone he felt and how reluctant he was to open up about his problems.

The people who had been through that personal hell and made it simply weren't around to talk about it. From across the miles, he wanted to shout out to his financially troubled friends and neighbors, "There is a way. You can do it! There are alternatives. Don't be so hard on yourselves. You have been good farmers. Find what else you can be good at."

Dr. Val Farmer is director of the rural [illegible] program of the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.

Dr. Val Farmer

The tortoise and the hare

The Cornbelt is tortoise and hare country. Researcher Sonya Salamon from the University of Illinois documents the existence of two main farming strategies existing side by side in the Cornbelt. It is upon her research this allegory is drawn.

The hares

It is hard to find fault with the hares. They not only follow the conventional wisdom for getting ahead in agriculture but the leading wisdom put out by farm management publications, universities and various proponents of scientific and commercially oriented agriculture.

For the hares, farming is an unsentimental business where the land is regarded as an investment and success is measured by maximizing profits. Bigger is better. The hares incorporate new technology and increasingly efficient equipment to accomplish their goals.

They ambitiously and aggressively add land to best utilize the new resources they have at their disposal. Goals are not geared to family size or labor but rather to the extent of the managerial ability and available capital resources. Expansion is accomplished primarily through the use of rented land.

As a rule, the hares gravitate towards farming one large grain crop, focusing on efficiency and volume to make the enterprise profitable. The hares take risks with credit and investment to build their enterprises and make them more profitable.

The hares have fewer offspring (an unexpected finding for hares). The bunnies are encouraged towards higher education. If something looks better to them than farming, the parental hares support it. A lot of young hares leave and establish themselves quite nicely in other professions. When some young hares return all bright-eyed and bushy-tailed to the farm, they are expected to show some initiative in seeking their own nest and enterprise.

Money talks. So does freedom and autonomy. The hares have more than their share of family conflict regarding working arrangements, transfer of control, retirement and estate planning. Keeping the land in family hands is not the top priority, economic considerations are. Tough-minded decisions are made, and many hares, both young and old, leave agriculture.

The individualism of the hares spills over into the community. Everyone goes their own way. They go to different churches. The population of the village declines. Schools, churches, and businesses consolidate. At the community level, there are few events that bring the hares together to create a sense of shared identity.

The tortoises

The tortoises share a common religion and clannishness carried over from the lands from which they migrated. Owning land and passing the land on to their offspring is an emotionally driving value among tortoises. It is a measure of success to have the land continue to be in the family.

The parental tortoises sacrifice greatly to sponsor and support their young turtles to acquire and own land. The young are often set up on farms that become available in the territory of the hares.

There is relative unconcern about the pace of economic progress as long as the overall goal remains in sight. The young are raised to value the farm lifestyle and the security of family and community. Education is also but acquiring industrious work habits, knowledge and skills from parents is seen as the real key to future success.

As one imagines, the tortoises are known for their slow, plodding and methodical work habits. Savings and cash purchases are valued and major risks involving credit are eschewed. They are known for their caution. Tortoises use diversification in farming to bring in income. All their eggs are not in one basket.

To expand, they often add or intensify livestock production through dairying or pork production. Both of these types of enterprises are labor intensive and require extraordinary dedication and ample labor supply. Fortunately, the tortoises reproduce themselves in sufficient numbers to provide the labor requirements of these enterprises. The young tortoises are taught to love the work and want to stick around.

The tortoises like to get together in church and community-wide events to celebrate life and to support one another in life's journeys. The population of the village remains stable and most everyone lends a hand to support community activities. Village life continues to be vital and is not affected by any major exodus of tortoises, young or old.

Tortoise versus hare

If winning the race is determined by wealth, current profitability, or size of holdings, then the hares come out ahead, hands down. They will always be in the lead, talked about, and used as an example of what agriculture is all about.

Their aggressive risk-taking strategy will cause some to do spectacularly well, while others fall by the wayside. However, the attrition, the tentative commitment and the lack of smoothness in bringing along the young cause a steady depletion in numbers among the hares.

If winning the race is determined by persistence of numbers in agriculture or control (as a group) of the most territory, then the tortoises come out ahead. The advanced attack division of hares is followed by an army of tortoises.

Does persistence or profits define success? Is it business acumen or thriftiness? Is it aggressive expansion and risk-taking or is it hard work and commitment? Which group, in a Darwinian sense, survives to reproduce themselves?

The winning strategy for both tortoises and hares is doing what they each do best. An occasional glance ahead or behind, as the case may be, to see what the others are doing doesn't hurt. A farmer, reading this column, knows which camp he is in and knows the strategy with which he feels comfortable. Both are winners.

Dr. Val Farmer is director of the [illegible] program at the [illegible] Center in Rapid City and a specialist in the field of rural [illegible] health and family relationships.

Dr. Val Farmer

The marshal is not alone

It is high noon. A lone man with unyielding courage faces deadly danger from outlaw forces seeking to overrun the community he is entrusted to protect. Though many believe in his cause, no one is willing to step forward to help.

Defying all odds, the solitary and taciturn man prevails against his foes, leaving the townspeople awestruck with admiration and respect for the feat they had witnessed. The man moves on.

A man uproots his family and travels away to a primitive and distant frontier in search of independence and opportunity. Through sheer force of will and determination, braving unknown and devastating hardships, he prevails to leave a lasting legacy for his children and his children's children.

A man buries his wife, a victim of the harsh reality of an unforgiving and fearsome blizzard. He also buries his feelings deep inside of him and endures his pain without a tear. It is not seemly or manly to give into weakness or to show emotion. He is strong enough not to seek or need the emotional support of friends. He is forlorn but resolute in his struggle to be self-sufficient in the face of any and all adversity.

These are the sustaining and nourishing myths and values we Americans cherish as a part of our individualistic and enterprising heritage. One person alone can overcome a myriad of obstacles and pernicious forces to attain his or her highest dreams in this land of opportunity.

However inspiring and useful these myths may be for our national psyche, unfortunately they are not descriptive of the reality by which our progenitors surmounted their daunting challenges. It was through neighbor helping neighbor, barn-raisings, mutual aid in time of need, sharing of limited resources, family togetherness, and tight knit communities that survival was insured. The settler never stood alone. Interdependence in the spirit of cooperation and learning from others is just as much, if not more, a part of our heritage as the integrity and strength of the individual.

Growth covers a multitude of sins. During good times we can afford the luxury of independence and even to mistakenly entertain the notion that progress results from individual initiative and effort. Efforts of others who have gone before and the market forces beyond one's control invisibly contribute to the bold and striking impact we attribute to our efforts.

Perhaps, no one subscribes to the "cowboy myth" with more tenacity than the livestock producers themselves. Dr. Max Brunk, in a talk before the Livestock Marketing Congress in San Antonio, explained how the myth is a barrier to change and innovation within the livestock industry. He said provocatively that, "Rugged individualism and independence are incompatible with the entire concept of producing for the market in quantity, quality or service." He further added, "I know of no industry that so blatantly ignores the consumer. Few producers initiate production with any idea whatsoever of who will buy their product, where, when or how."

The fatal flaw for some is their internal need never to be wrong. It is too threatening to their self-esteem to accept criticism or new ideas from others. By damn, they know the "right" way and they are headstrong and stubborn enough to prove themselves right, come hell or high water. Pride masks itself as self-sufficiency, rigidity as righteousness and resistance as tradition.

Some have a preoccupation with order and precision, not permitting deviations that could lead to creative improvements in the way things are done. For others, a reluctance to "play" keeps everyone so task-oriented that whimsical or outlandish ideas are never expressed and, consequently, not entertained for some practical application. For some, not even a jarring encounter with pain and failure is enough to spur reappraisal of the problem or the response.

Not all livestock producers are so hidebound that they cannot grow. The shakers and the movers have such a natural curiosity about how things happen that they are drawn to consider related fields and how they interact with the ranching enterprise. Often, it is in the interface of these functions that new and innovative ideas develop. These producers read widely in unrelated fields with serendipitous results. They look over the fence line and are not afraid to borrow an idea that works.

Innovative people put themselves in the company of bright people, ask questions and listen well. They actively seek information and willingly share what they know. In helping others succeed with their problems, they learn and grow themselves.

In these stimulating interactions, the creative person gets new perspectives and defines old problems in new ways. He recognizes opportunities to improve and to skillfully exploit them. New technologies are incorporated; work is reorganized; new activities are initiated and inefficiencies are eliminated.

The person who sees the interdependence of things also can focus his energies on the external forces that operate in his industry and link arms with others to shape the environment in which his business operates. Impressions are managed, critics are coopted, resources are lobbied and political forces are harnessed. The innovative person knows he needs others and likewise, he makes himself useful to them.

If the "cowboy myth" stops a person from listening and learning from those around him, from knowing his customers and markets, from relying on others for practical and emotional support and from building up the success of others around him, then the myth has [illegible]ved its usefulness. The reality of [illegible] frontier was one of people working together. The odds are much better when the marshall is not alone.

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22 the Rapid City Journal Sunday, May 6, 1984

Dr. Val Farmer

Challenging opportunities for growth

"Agriculture in general is in a lot of trouble in this country," said Clayton Yeutter, president of the Chicago Mercantile Exchange. "And I don't think it's bottomed out . . . it may be worse 12 months from now."

With recent news like that, how can farmers and ranchers continue to cope with the prospect of continued economic stress? Is there any ray of sunshine behind the clouds?

One notion of stress is that it is an event that challenges our resources and understanding and it carries with it a threat to our well-being if we do not respond appropriately. The Chinese have captured this concept in a word that is compable to our word "crisis." The word is formed by combining two characters, one meaning "a dangerous time" and the second meaning "an opportunity." Literally translated it reads: "Crisis is an opportunity riding on a dangerous wind."

That is a powerful insight. Difficult and trying problems are opportunities in disguise. It is through struggle and trial that some of greatest growth occurs.

Stress spurs development. It jars us into action. We begin to search for information and understanding about the problem and to make a response that is necessarily different and original from our usual way of responding. Instead of viewing stress as an unpleasant source of tension to reduce or avoid, we can redefine these experiences as "challenging opportunities for growth."

There is a story, possibly apocryphal, of an American general who, when informed that his army was surrounded during the "Battle of the Bulge," responded, "Good. We've got them where we want them. We can attack in any direction!"

Likewise, many of our growth opportunities come from uninvited life experiences, obstacles and problems placed in our path that demand our attention and concern. Our newspapers

. . . TO FUTURE SUCCESS. To a degree, we are SHAPED by the past OF. . .

and literature are filled with accounts of the triumph of the human spirit when adversity and tragedy force a compelling change in people's lives.

Even in the ashes of defeat and failure, we learn valuable lessons. If used properly, these experiences can serve as stepping stones to life's circumstances and forces we do not anticipate nor necessarily want in our lives.

There is another side to the stress story. At each step in our development, we are attracted to experiences that are interesting and challenging to us. We place ourselves in situations where we have to extend and stretch ourselves. We do not select experiences that we think are too boring too difficult or too easy.

Worthwhile goals, complete with problems and obstacles, also spur our development. To achieve a goal, not only do we need to deal with current challenges and obstacles but to successfully anticipate future ones as well.

In speaking about threatening world situations, Henry Kissinger said, "It is a paradox of the contemporary world that, if we wait until the dangers become realities, we will lose the chance to do anything about them." The same line of reasoning can be applied to opportunities. If we wait until the opportunities become realities, we will lose the chance to take advantage of them.

To always have challenging opportunities, we have to imagine what it is we want to become and then step by step expose ourselves to the stressful situations that will carry us there.

Preparation precedes power. Preparation means acting with faith, working hard and sacrificing the comfort of the present for the chance to experience future rewards. The miracle of growth is as we approach our goals, they are transformed into new ones and the process of preparing and meeting challenges continues. The journey's end will be loftier and greater than our preconceived destination.

To be successful in meeting both the invited and uninvited opportunities for growth, we need an accurate appreciation of our strengths and limitations. Hans Selye, the pioneer who contributed much of our knowledge about stress, offered a one sentence summary of his work. "Fight for your highest attainable aim but never put up resistance in vain."

This same advice also is found in the serenity prayer. "God grant me the serenity to accept the things I cannot change, the courage to change the things I can and the wisdom to know the difference."

Life certainly can be exiting, challenging, daunting, threatening and demanding. For farmers and ranchers and for people general, riding on a dangerous wind is preferable to the stillness of boredom and stagnation.

NOV 4, 1984

Dr. Val Farmer

Dark clouds and silver linings

Many farmers and ranchers are undergoing stressful financial problems. For many, the horizon is laden with heavy, menacing clouds. In trying to find meaning from setbacks, disappointments and tragedies in the dark clouds of life, we struggle to glimpse the luminous edge that tells us the sun still shines and that there will be a brighter day.

Sometimes, however, there is no silver lining. The loss of a loved one, failing health or a maiming injury are life's greatest tests. Life is changed and is different, not better. Some things are to be endured and accepted. No matter what else we can say about life, it goes on. Some clouds will always be dark. But they won't always be in direct vision as time moves them to a different part of the horizon.

It is our faith in the goodness of life and in a benevolent diety that tells us that the sun is still there when there is no hint that the storm will ever cease. Hope is our sustaining human gift that helps us persevere in the face of enormous difficulties. To emerge victorious from these trying ordeals earns the ultimate accolade "a triumph of the human spirit."

More important than the silver lining is the storm itself. These trying experiences are the key to personal growth we can get in no other way. Once these uninvited experiences and challenges come into our lives, they push and stretch us into measuring up to their daunting requirements.

In looking back, what are some of the lessons of life that farmers and ranchers have learned from the storms they have weathered?

Perspective. The ill-winds of fortune teach hard lessons about our personal fallibility and vulnerability. With this understanding about ourselves, we struggle for a greater understanding and perspective about life and what is important. Life's challenges keep us humble and appreciative of our dependence on God and require us to exercise faith in him. Our lives and priorities are better because of these chastening and enlightening experiences.

Growth. The hailstorm of adversity can be a spur to creativity and growth. When things aren't going right, new answers and alternatives are thought about and tried. A study on successful farmers and ranchers in the upper midwest pointed out how they felt that going through adversity was a major factor in their later success. Their key business ideas and attitudes were formed and polished during hard times and provided the foundation upon which later success was built.

With tough times, there is a new business environment to master. A successful response to these changed conditions involves an awareness of what needs to be done to minimize problems or to capitalize on hidden opportunities. Challenging economic conditions test and bring out the best in management and leadership skills.

In a recent column, Erma Bombeck related how she attended a seminar from many professions. As the leaders spoke of their experiences, they kept returning, not to their successes, but to their failures. They had learned from them, gotten stronger from them, and took enormous pride in them. Losing, not winning, made them whatever they had become. Struggle, failure and mistakes were major stepping stones in their path to greater accomplishments.

Unity. When there are storms, there is work to be done. A lot of it. Everybody's hands are important. Management transition and delegation take place much easier during times of stress. Parents and adult children are forced to rely on one another and learn new respect for one another's abilities. Without that experience, there may be doubts in the parents' minds about their children's ability to manage.

When the family shares common goals and challenges, they are bound together in an emotional climate of closeness and unity. Children reared under these conditions learn to understand the feelings of others and to work for larger goals than their own self-interest. Exposure to personal pain and struggle teaches compassion for others whose lives also have trouble.

Going through adversity together and relying on each other for support and inspiration are among the sacred experiences that bind and deepen the love between husband and wife. They learn to know and appreciate each other intimately, from the heartaches of their soul to the grittiness of their courage — and much, much more.

If the storms of life teach us to be humble, to give us hope and courage, to keep us learning and growing, and to cooperate and have compassion with each other, then we can grudgingly admit that they are valuable and important. There is a silver lining after all.

More often than not, it is not just the lining we ought to be thankful for, but the whole darn cloud.

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cc

22 the Rapid City Journal Sunday, December 2, 1984

Dr. Val Farmer

The art of not cracking up

"Mankind is best served by those who simply do not crack up when all expect them to." —Harry Emerson Fosdick

"Carefully cut out this column and put it in your 'All the Reasons Why I Should Crack Up but I Refuse' file. Don't worry, sooner or later, you'll need it. That is the way life is. You can quote me on that." — Val Farmer

"Be courageous! ... Be as brave as your fathers before you. Have faith! Go forward!" — Thomas Edison in his last public address

"True dignity abides with him alone
who, in the silent hour of inward thought,
can still suspect, and still revere himself,
in lowliness of heart."
—Wordsworth

"Very strange is this quality of human nature which decrees that unless we feel a future before us we do not live completely in the present. (Human nature) always must look forward." — Phillip Brooks

If You Think You Can

"If you think you are beaten, you are;
If you dare not, you don't;
If you think you'll lose, you're lost;
For out in the world you find
Success begins with a fellow's will;
And it's all in a state of mind.
If you think you are outclassed, you are;
You gotta think high to rise.
You gotta be sure of yourself before
You can win the prize.
Life's battles don't always go,
To the stronger or faster man;
But soon or late the man who wins
Is the man who thinks he can."
— Words set to music by Donna Glanzer, used with permission

"The result of any man's life will consist of his character multiplied by his circumstances." — Tennyson

"Whatever the situation and however disheartening it may be, it is a great hour when a man ceases adopting it as an excuse for despondency and tackles himself as the real problem." — Harry Emerson Fosdick

"Life is what happens to you when you are making other plans." — A.J. Marshall

"It is no use saying 'We are doing our best.' You have got to succeed in doing what is necessary." — Sir Winston Churchill

"I know of no more encouraging fact than the unquestionable ability of man to elevate his life by a conscious endeavor ... We all make some mistakes; we all set out on some detours and pursue some wrong roads; and the dogged presumption — and sometimes perhaps more foolish pride than presumption — that once having started wrong we have to follow through is one of the reasons why people sometimes find themselves in deep and dangerous ruts. All choices of life should be looked at forthrightly, searchingly, sincerely." — Thoreau

"It is necessary to hope for hope is happiness." — Samuel Johnson

"The lesson I strive to learn, the lesson which appears so easy, but is so hard, is to remember in the down times that they will not last and the up times will return." — Gamaliel Bradford

"Endure, and keep yourselves for days of happiness." — Virgil

"If all men were to bring their miseries together in one place, most would be glad to take ... home again ... each his own." — Solon

"If I were dying, my last words would be: have faith and pursue the unknown end... There must be a drift, if one will go prepared and have patience, which will bring one out to daylight and a worthy end ..., one is safe in trusting to courage and to time." — Justice Oliver Wendell Holmes

"I shall find a way or make one." — Admiral Peary

"Believe me, every man has his secret sorrows, which the world knows not; and oftentimes we call a man cold when he is only sad." — Longfellow

"Life is thickly sown with thorns and I know no other remedy than to pass quickly through them. The longer we dwell on our misfortunes, the greater their power to harm us." — Voltaire

"No one could endure adversity, if while it continued, it kept the same violence that its first blows had ... No state is so bitter that a calm mind cannot find in it some consolation ... It is possible to soften what is hard ... and burdens will press less heavily upon those who bear them skillfully." — Seneca

"None knows the weight of another's burden. You may search all the ages for a person who has no problems. You may look through the streets of Heaven, asking each one how he came there, and you will look in vain everywhere for a man morally and spiritually strong, whose strength did not come from struggle. Do not suppose that there is any man who has never wrestled with his own success and happiness. There is no exception anywhere. Every true strength is gained in struggle." — George Herbert

"On down days, I like to read a special file with a lot of hopeful thoughts in it. The trouble is, I don't know where I put it." — Val Farmer

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22 the Rapid City Journal Sunday, February 10, 1985

Dr. Val Farmer

Doing best things in worst times

The headlines scream. "Economists predict hard times on farm for six years." Daily we are innundated with stories about America's farmers facing a harvest of despair. In light of the constant barrage of dire news, just what are farmers and ranchers supposed to think and feel? How can they maintain hope under such circumstances?

Consider this editorial "The world is too big for us. Too much going on, too many crimes, too much violence and excitement Try as you will you get behind in the race, in spite of yourself. It's an incessant strain, to keep pace . . and still, you lose ground. Science empties its discoveries on you so fast that you stagger beneath them in hopeless bewilderment. Everything is high pressure. Human nature can't endure much more!'"

This editorial appeared on June 16, 1833, in the Atlantic Journal It seems that every age has its own unique set of challenges and opportunities. What would life be without problems? For Charles Dickens, 1775 was the best of times and the worst of times. Another person described life this way: "Life is just one damn thing after another."

If we didn't have problems, it probably would be necessary to invent some. A reporter studying the lives of the Forbes Four Hundred, the annual list of the 400 richest people in the United States, commented that he admired those who remain productive after they obtain their wealth. "To many of these people, wealth is secondary. They have a product, a dream."

Most of us do not have the luxury of choosing our struggles. They are imposed. Through our creativity, we can attempt to engineer the circumstances that impinge upon us and try to fulfill our dreams in spite of the obstacles In that struggle, and because of the struggle, we grow greater The harder the struggle, the greater the growth.

Through our attitude, we can engineer our responses to life's slings and arrows. Author Ardis Whitman comments, "In our minds all events happen, all joys live, all sorrows find a philosophy that tempers them. Here is a citadel that cannot be taken, a region of peace where a storm cannot enter unless we welcome it."

As human beings, we have marvelous inner resources at our disposal. In dealing with the cards life deals us, we take action to change things or alter our attitude to accept them. In the movie "Starman," there is a line spoken by the alien, "What I like about you humans is that when things are at their worst, you are at your best."

In Leicester, England, an inscription on the outside wall of an old church reads: "In the year 1651 when all things were, throughout this nation, either demolished or profaned, Sir Robert Shirley, Baronet, founded and built this church. He it is whose singular praise it is to have done the best things in the worst times, and to have hoped them in the most calamitous "

For farmers and ranchers, for all of us, the challenge is to keep hoping and doing our best to make the worst of times into the best of times. They are, after all, our times . . . our only times.

Dr. Val Farmer is director of the rural enhancement program at the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.

Dr. Val Farmer

Farm stress

What are farmers and ranchers up against? As a psychologist concerned with the problems of rural families, I've been trying to understand the economic stress they face.

At the risk of oversimplification or being naive, let me share some ideas about the dilemmas in modern agriculture. Needless to say, writing a column on such a politically and emotionally sensitive topic is an invitation to be educated. I welcome any comments and feedback.

With the world population increasing and as standards of living improve, there is increased demand for food products. The consumer, however, is in the driver's seat as to the price he pays. A particular food product has to compete in price with a myriad of other food products. If the price of a food product is too high, the consumer has a lot of options. Typically, too, during tight economic conditions, the consumer has to exercise these options to compensate for rising and unavoidable fixed costs.

Another reason why prices are difficult to set is that market share is divided up among so many independent operators. It is hard to gear the amount of production to demand. Agriculture is the freest and most competitive segment of our economy.

The competitive strategy adopted by most farmers is to orient their operations towards large scale and efficient production. They use the latest technology to cut costs and increase efficiency. Aggressive innovative managers use technological advances to give themselves a competitive edge.

What is the collective result of this efficiency and hard work? Overproduction. Overproduction, the creation of supplies in excess of market demand, drives down the price. Individually, they farmer uses technology to his advantage. As a group it means fewer operators can meet market demand.

Instead of producing more through technology, why don't farmers get together to limit the amount of production? Some try. Not all agree. National farm policy plays a role in adjusting supplies by offering incentives to limit production.

Efforts to raise a commodity price by limiting production works best when the market is primarily a domestic one. When the market is international, as in the case of American farmers, limiting production is an open invitation to other producing countries to increase production and compete for market share with a lower priced product.

Why don't the producing countries get together to limit supplies? National goals differ. Some countries, the U.S. included, want to expand markets for their products, not freeze them. Other countries are trying to develop an independent food supply for political reasons. They create barriers to imports and subsidize local agriculture.

What is the answer? Turn our back on technology? Not likely. Control production? A two-edged sword. Export market? Politics. Fewer farmers? Tell that to a farmer.

Farmers love their work, family oriented lifestyle, nature, independence, communities and the land. They have a tradition of being rooted to the land and have the skills to produce quality products.

Agriculture is not an industry that will shrink without pain. Considerable pain. The small farmer will have a more difficult time. Entry into agriculture for young farmers will become more difficult. A farmer saddled with debt and high interest rates loses his profit margin before he starts. It is a big hole to crawl out of.

Michael Boehlje, an Iowa State extension economist, feels that a third of the farmers are in a precarious position. He predicts that during the rest of this decade, there will be a growing disparity between the "haves" and the "have nots" in agriculture.

It is not a case of poor managers. Sure there are some poor managers, but, by and large, the one-third who are in precarious positions are managing their hearts out for paper thin profit margins.

Farm stress? It is as real as the displacement of people in the industrial midwest and east. Only the transitions are harder. It is a way of life being fought for, not just an occupation.

The struggle doesn't only show up in the foreclosure notices and the voluntary liquidations. It shows up in the cash flow problems and shrinking equity, the loss of hopes and dreams; in the frantic effort to hang in there and wait for that great tomorrow to arrive.

I admire their tenacity.

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Sunday, October 21, 1984

Dr. Val Farmer

Economics and the rural way of life

What will agriculture look like in the year 2000 based on current trends? Here is a scenario that is in the process of unfolding.

1. Large family owned farms and ranches will be operated with state of the art financial, technological and management techniques. Marketing will be the key business strategy that brings stability to the enterprises.

2. A large percentage of the farms and ranches will be operated by people who don't own land. Agriculture will seek outside investors to help finance the high costs of capitalization and technological innovation.

3. Medium sized family operations will be forced to expand or intensify (difficult to finance with today's interest rates) or reduce the scope of their operations. The smaller operations will be sustained by off-farm employment by either the husband or wife or both. Smaller operations that do not have access to off-farm income will be under heavy financial stress.

4. Families with strong ethnic farming traditions (usually Germanic — Dutch, Austrian, Swiss, German) will resist these trends and remain a viable force in agriculture through conservative and labor intensive strategies.

5. Farms with mainline cash grain crops or livestock will be hardest hit while specialty crops with stable markets will not come under as much pressure.

These changes have been happening for at least 20 years. The depressed farm economy of the past four years has accelerated the process. Farmers and ranchers, like their parents before them, have considerable experience in adjusting and coping to change and adversity. The specific challenges may be new but the heritage and character for dealing with them are not.

What are the social consequences from these trends?

1. Families in agriculture will be overloaded with major responsibilities in mastering complex technological, business and financial roles while serving their families and communities. The strain on rural families will result in a reduction of rural community involvement. There will be considerably fewer people to carry the burden of community activities and the quality will deteriorate.

2. Off-farm employment will draw men and women away from family and community duties. This will pose additional challenges for parenting, marriages and managing household responsibilies.

3. The preceptions and attitudes of the bigger operators will approximate the business orientation of urban business owners. The cohesion and cooperation between neighbors will break down as each unit becomes increasingly self-contained and complex. To survive, classic rural values will be revered but shelved as the economics channels behavior towards an urban lifestyle.

The families from smaller units supplemented by off-farm income, in addition to their problems of managing time and energy, will be increasingly socialized to friendships and social behavior through their workplace. Farm and town will be integrated as one community and agricultural communities will lose their distinctiveness.

4. The stress on farm families will accelerate as these trends continue. People will be forced out of farming. Many will not be prepared with viable economic skills. Most do not want to give up a cherished rural lifestyle. The adjustment of family dreams and goals in agriculture will come hard for parents and children who are socialized to agriculture as a way of life.

5. Land will be misused as business types seek to maximize short term returns on investment and desperate farmers seek to produce their way out of their financial problems.

Do we welcome these changes? Probably not. Massive controls and subsidies, something government and most farmers are loathe to implement, would be necessary and at the cost of distorting the national and world marketplace.

Technology and economics have a powerful effect on rural culture and values. The sense of rural community cohesion and neighborliness will suffer unless there is a conscious articulation of rural values both in the home and in the community.

Ethnic and religious communities transmit values from one generation to the next and celebrate through symbols and rituals their shared understandings about life. Changing economic conditions alter some of the behavior while the core values are retained. Rural communities need to be just as active in retaining their distinctiveness through an emphasis on history, literature, customs and social values. It will not happen without great effort.

The displacement of farmers from the land and the dilution of a rural way of life will continue. The hue and cry will capture the headlines while the pain and loss will be endured privately.

The displacement and dilution will not be total, however. Adjustments will be made and the rural way of life will continue though in a different guise than we presently know it. For a money-in-the-bank prediction, you can count on the Germanic farmers to still be out there.

Sunday, February 5, 1984 the Rapid City Journal 15

Dr. Val Farmer

Succeeding in tough times

Farmers and ranchers who are not showing profits for the labors of their hearts and hands are under a lot of stress. Managing a business that is declining affects dramatically a person's sense of well-being and worth.

Outside of the political arena, what can the individual farm or ranch family do to make their enterprise profitable?

Active management. The successful farmer has to become increasingly adept at plugging in to our information-based society for ideas and innovations. Science and technology continue to provide ways of increasing productive efficiency.

Today's economy places a premium on education, networking with peers and using experts to supplement management inputs. Farmers who are looking for an edge can find it with an aggressive stance of reaching out and learning from others.

Money management. The present economic climate of high interest rates, high operating costs and low prices calls for a financially conservative approach to money management. An operation with a high debt structure quickly cuts into profit margins.

Financial strategies must include a realistic appraisal of cash flow, cost cutting and holding back on major purchases. Both the family and the enterprise have to live and operate within their means. It is a time for "using it up, wearing it out, making do or doing without."

Marketing. One of the biggest changes farmers need to make is shifting their management from a production-oriented strategy to a market-oriented one. Producing is rarely the problem. Making money with what is produced is.

Farmers can work together for product promotion and the development of new markets. On an individual basis, some may choose to redevelop their operation to produce a speciality crop that fits an open niche in the marketplace.

Most importantly, farmers need to hit the marketplace in the most timely fashion to maximize their profits. Armed with information about cost of production, market trends, and having adequate storage capacity, farmers use futures contracts, forward contracting, direct marketing and government programs to lock in prices that guarantee a profit.

Cooperation. Farmers can also use the farm cooperative as a means of combining the production of smaller farms into large scale units with the ability to command leverage in the market place. Cooperatives can also lower purchasing costs for members.

Families and neighbors who know how to work together to share resources, talent, ideas and labor help each other cut costs and increase efficiency. Families with a history of intergenerational cooperation develop the leadership and resource base to survive tough times.

Independence can be a luxury during tough economic times. It takes special social skills and a commitment to mutual goals to work as a team and to maximize the human and physical resources available.

Attitude. Meeting the challenges of tough economic times helps people improve and grow. Adversity has a way of honing management skills and testing creativity and motivation. The things learned during tough times are often the springboard for many later successes.

Farming is an adventure that has to lead somewhere; a somewhere that can be believed in, hoped for and counted on. There is a way to succeed. In farming and ranching, it means doing a lot of things extremely well.

(Dr. Val Farmer is director of the rural enhancement program of the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.)

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Feb 26, 1984

Dr. Val Farmer

Technology disrupts rural values

Rural life is celebrated for its hospitable people, neighbors that care, labor exchanges, participation in community activities and family life. The bonds that tie rural people together are interwoven with the strands of church, community and family values.

There are forces, however, that pose a threat to this distinctive rural lifestyle and its mutual interdependency.

Historically, the automobile and the telephone have played a role in changing rural communities and rural social patterns. These technological advances facilitated community contacts, but also provided an avenue for rural people to access more distant resources. As a result, the small towns gave ground to larger trade centers for community and business activity.

Today there are new and more modern technological and economic developments that pose even greater threats to rural social patterns.

Television

The most insidious of these is television. Television offers a compelling form of passive entertainment in the home on demand. The need for neighborly social visits is not as great when there is an electronic guest available at our fingertips. Even if television programs were superlative, they still have a harmful effect. They replace family and neighborly activities that shape the values and cement the bonds between people.

The programming itself, by and large, reflects a preoccupation with the modern urban scene as a setting for drama and comedy based on dubious values. Even the advertising is seductively packaged in upscale urban trappings. One wonders how farm children react to this constant exposure of urban symbols of status and success.

The news programming also orients rural people to national and international issues and concerns, perhaps at the expense of decreasing interest in regional and local issues. Marshall McLuhan's vision of an electronic global village becomes more real as rural values are challenged by perspectives of a homogenous mass culture.

Off-farm employment

With the economic pressure on families in agriculture, off-farm income is seen as a necessary step in maintaining a viable rural lifestyle.

The men and women who opt out of necessity for off-farm employment, along with those women who enter the work force for reasons of fulfillment, are no longer available to serve the community, visit with neighbors and exchange labor to the extent they were formerly accustomed. They have their hands full.

Economics

Economic conditions in agriculture continue to reduce the number of farms and farmers in rural communities. Again, there are fewer hands to carry the community load.

The growing economic disparity among farmers themselves also breaks down patterns of neighborly interactions. The operator farming on a large scale has different concerns, needs and values than the small operator. They do not have that much in common. It is hard to work out truly reciprocal exchanges. The large scale operator solves his needs for help in other ways than turning to his neighbor.

Large scale operators operate more efficiently when they use their purchasing power to full advantage. In many cases this means by-passing the local community in favor of the best business deal.

Community patterns and loyalties are also weakened by absentee owners and public corporations in agriculture. Their social and business contributions to the local community do not compare to family-oriented operations.

Values to preserve

There is tremendous vitality in rural communities. Rural families are holding on to their values as they adapt to new economic conditions and technologies. To preserve these values they need to be aware of the new challenges and to continue to cherish the tradition of caring for one another.

It is, in fact, a message for all of us.

(Dr. Val Farmer is director of the rural enhancement program of the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.)

38 the Rapid City Journal Sunday, October 7, 1984

Dr. Val Farmer

A rural renaissance

Population experts have noted a reverse migration from urba.. to rural settings. This back-to-the-land movement doesn't have much to do with agriculture and a lot to do with choosing a rewarding lifestyle. Now, within the context of the 80s, there appears to be a parallel shift of political, social and religious sentiment towards the heartland values of our rural communities. More emphasis in our society is being placed on the importance of home and the family, religion, and community belongingness.

It is not coincidental that this theme is portrayed in three major motion picture releases this fall, "The River," "Country," and "Places of the Heart." Presumably, these movies will make us yearn even further for our rural roots and affirm forgotten sensibilities.

To reaffirm traditional values is good; to actually make a living in rural agricultural communities is difficult. The people who have stayed because of family and lifestyle reasons make substantial trade-offs in terms of income and career opportunities.

Agriculture is a technology-intensive industry. The individual farmer tries to use technological innovations to increase his volume of produ .tion to offset rising costs and falling prices. Collectively, the higher yields depress prices even further. Again, the individual farmer looks to technology to stay competitive. It is a costly and risky process. The result is a continued push towards larger and larger scale agriculture to increase efficiency and productivity.

The inexorable trend towards fewer farms and larger farming operations depletes rural communities of their economic base of local suppliers and service providers. Transportation and communication advances make the local businesses vulnerable to being bypassed by farmer/businessmen looking for the best business deal available.

The loss of farmers and local businesses leaves the rural community with a disproportionate number of elderly and children and a shrinking number of workers, professionals and business owners to bear the tax burden. Without a population bas-, important community institutions are hard pressed to sustain and justify themselves. Schools close, rural churches suffer, meager services shrink, community programs die, main streets disappears, and the human spirit droops.

More people leave. The cycle accelerates. Add in a depressed farm economy with farmers and ranchers making conservative financial moves and the picture really gets bad. Those cherished heartland values don't feel nearly as good when the struggle is for survival.

Is there a ray of sunshine behind the clouds? If the villain of our scenario is technology, then it is also our hero. The computer and communication technologies are decentralizing business functions. An information based economy doesn't need the massed work forces of the city. Distances are becoming increasingly irrelevant.

We are moving to a new age of the entreprenuer and the consultant who can ply their trade from almost anywhere. Home based offices, businesses and cottage industries are not only possible but feasible.

The rural community, with its overeducated and underemployed work force, becomes attractive to employers seeking stable and eager workers nurtured on the rural work ethic. In such a setting, the unheard of will again become commonplace. Untapped talent will blossom. People with talent, ambition and dreams will not have to migrate.

People can and will stay if they have options. Still others will return. They have reasons of the heart. It may seem a little like colonization with companies offering the bare minimum in wages and benefits. To rural communities, a half a loaf is better than no loaf at all. Colonization doesn't feel like colonization; it feels like new opportunity.

Agriculture can't save the rural communities. Rural development can. Preparation of rural children to apply information age technologies is crucial to this process. Rural communities can aggressively court industries where "place" is no longer relavant. There is a message to tell and to sell.

If the amazing new tools of our technology can be placed in the hands of good-hearted rural people, we will truly witness a rural renaissance.

Dr. Val Farmer is director of the rural enhancement program of the West River Mental Health Center in Rapid City and a specialist in the field of rural mental health and family relationships.

TELL THIS ON CAPITOL HILL

David Stockman

Office of Management and Budget

Washington, D.C.

Dear David:

You must have a tough job, presiding over a budget that gushes red ink to the consternation of most everyone in the free world. Your job is complicated because President Reagan's gamble that tax cuts would stimulate the economy hasn't paid off and leaves you with the nasty job of figuring out what to cut.

Your boss isn't too keen about raising taxes. It is easy to see why. Besides the unpleasant aspect of admitting to a failed policy, there are philosophical reasons and political support for trimming the size and cost of government. It is unlikely Congress would bite that political bullet unless it absolutely had to.

You've been put in charge of withdrawing everyone's charge card. Oh, does everyone let out a howl when their charge card is called in...and, of course, enthusiasm is minimal about the others who managed to keep theirs. It must get to you when, everytime you line out some savings, millions of irate citizens or one or two influential legislators call you on the carpet for trying to do your job.

I can see why you lost your cool in the hearing the other day and said some things that got you in hot water with farmers and the military. At the risk of adding to the chorus of your detractors, I do want to correct your impression that the current farm crisis is being caused by mismanagement or greed.

Mr. Stockman, our free enterprise system is based on people making the best judgments about economics conditions and to take risks to maximize their returns accordingly. The negative real interest rate of the '70's was a boon many of us who were in a position to take advantage of it. It made sense to expand and grow on borrowed capital.

Few of us, though we were hoping differently, thought that the inflationary psychology of the '70's could be broken. Your boss helped. So did the Federal Reserve Board. What was right suddenly and dramatically became wrong. Sure there were warning voices, but who really listened?

Was that mismanagement? If so, put most of the country in that category, including the Fortune 500 companies. Believe me, the farmers who guessed wrong are paying dearly for their mistakes only they don't have the political clout for a federal bailout.

The problem facing farmers isn't personal mismanagment at the farm level but global political and economic conditions fueled, in part, by high interest rates that refuse to come down in the face of monsterous deficits.

Most farmers with any kind of debt can't make money with double digit interest rates, an export market market sucked dry by a "strong" dollar and with foreign markets protected by tariffs and subsidies. The problem is further confounded by our own short-sighted agricultural policies and a deficit budget deprived of billions of dollars of tax revenues diverted into unproductive and morally reprehensible tax shelters.

Farmers know this. That's why your comments blaming farmers for creating their own problems were highly offensive. To paraphrase your own remarks, farmers cannot figure out why they should have to bear the burden of the consequences of bad debt (read federal deficit) which was willingly incurred by consenting adults (read federal government).

You and the farmers have a common problem. It is your friends in Congress, in the Executive Branch and in the entrenched federal bureaucracy. What we need now, more than ever, are statesmen and stateswomen with uncommon courage to set their personal, local and special interests aside.

The days of the special interests are over. It is time to get on with the national interest. Tell that on Capitol hill.

Sincerely,

Val Farmer

Sen Abdnor:

Dear Sir. - Following are my opinions on proposals and cuts on agricultural related problems.

1. Proposed User fees. If we must have them they should only be applied to loans and checks written for $10,000.00 or more. I am against any Users Fees.

2. We need an A.C.P. and S.C.S. that is funded. Having the ACP program without funds don't make sense. Everybody benefits from Soil Conservation and tree plantings, Farmers will not be able to do these practices without some cost sharing.

3. Our County and Community A.S.C.S. System should not be changed. It has been cut way back already. Community Committees meet only once a year and County Committee 1 day a month. I believe that the work load carried in our office is way above some other Government Agencies.

4. I think there are some Government Agencies that could be eliminated. And others that could be combined and still be able to function.

5. I am a member of the National Co. Supervisors for Soc. + Medicare Would you please veto and legislation against Social Security Benefits.

Sincerely
Art Linnow

RT 1 Bx 113 Emery S.D. 57332

Recently the Farm Credit Administration implemented a loss sharing rule giving the 37 Federal Intermediate Credit Banks a broad new ability to bail each other out of liquidity problems.

Whereas the Farm Credit System has a $9 billion capital base and a 1984 profit of $425 to $450 million dollars, where is the problem? With proper and capable management and their use of forebearance and by operating inside the rules and regulations of the Farm Credit Act as intended by Congress, this extreme credit crisis should be manageable.

My first suggestion is. when money is appropriated, instead of using that money as a full loan appropriation, use it as an interest rate subsidation. Example: $100,000.00 is appropriated, instead of using all the $100,000.00 for one loan, it would have a 15% interest rate and would be difficult to cash flow, why not use that same $100,000.00 as an 8% interest subsidation that would create a loan volume through the FmHA, PCAs or private banks of $1,250,000.00 with an interest rate of 7% that would be cash flowable and should be paid back easily. This would create a twelve and one half times multiple benifit for the same dollar investment. On the present parity ratio this would still make it possible for most farmers and ranchers to cash flow and work out an equitable loan reduction plan.

The Valentine and O'Neill, Nebraska PCAs were closed for liquidation through instructions from the FICB, Omaha Office, not through or because of an independent action of the shareholders or Board of Kirectors. Why wasn't there an independent audit of the corporate books to determine exactly what condition they were in and these results made public at a shareholder's meeting? Instead audits are performed by FCA hired personnel with no information being released.

The FICB states in their planning that there will be 2/3 less farmers by 1995. They are not informing people of the options available under their forebearance policy. They are not staying with borrowers as long as there is a reasonable course of action remaining and also they have failed to help borrowers find new refinancing.

I feel it is time for Congress to hold an in depth investigation of the Farm Credit System and see where they have failed to follow their by-laws, rules and regulations. This needs to be done immediately, before the entire Farm Credit System collapses..

Whereas Congress has the power to regulate the Federal Reserve Board, shouldn't they place some restrictions on the interest rates they can set and also some restrictions on the spread between that rate and what banks of FICB can charge? These high interest rates are taking 23.1% of all government revenue and the compound interest effect is destroying this nation..

BEST COPY AVAILABLE

Also, a few thoughts on taxation policies. They should eliminate the tax deductability of interest paid on most consumer debt, limiting it only to one primary residence, one car and business and investment borrowing with the purpose of stopping the high borrowing trend. They should eliminate the tax on forgiven debt forgiven by the Farm Credit System. This tax was meant for wealthy individuals that abused the tax code.

Reward savers and investors by eliminating the capital gains tax and the tax on earned interest plus the double taxation of corporate profits. These tax changes would produce an explosion of savings, of investing, of venture capital and a flood of new businesses.

The 1985 Farm Bill - We need a long term policy to maintain an independent floor under the grain used at home. At the same time, subsidize our exported grain to whatever point is needed to make it very competitive on the world market, and all the time using it to reduce our trade deficit. This would better our position in the world, whether it is selling it or using it as a barter tool with poor countries that have minerals, oil, etc. that we can use. With the overall thought in mind of maintaining our food producing base. This is the best investment America can make. Free countries will be the ones that feed the world and the ones that stay free.

Thank you for your time. We appreciate the efforts you have put forth to help the people who are affected by the current agricultural credit crisis in this area.

Sincerely,

Garth M. Barnes

Garth M. Barnes
PO Box 158
Cody, NE 69211

North Route
Cody, Nebraska 69211
February 6, 1985

The Honorable Virginia Smith
The House of Representatives
Washington, D. C.

Dear Mrs. Smith:

We were unable to get on your program the other night. We did hear it the next day on Valentine radio. It was informative.

I particularly would like to thank you and the fellow from Lincoln radio, on your backing up the fellow from Morrel. It was sad to hear it is getting this way, away from where these banks closed. This has been our objective and hope that we could change some of this or make people aware it is comming.

Now to address my real concern. Your idea or whoever wrote your bill of which we recieved a copy. By the time they (the Banks and PCA), get to the foreclosure of the land, they already have all the livestock, machinery and whatever else you may own. So we deed the land to the government. From where comes the finances to continue to operate? Not having adequate collateral or cash flow before this, is the stopper now. Now no land, no livestock, no machinery. When do we find any financing at all? These banks don't even give free coffee anymore. These are some of my Sandhills thoughts.

We have an increasing debt or operating expense of which we have no say. We have high interest rates of which we have no say. We have a fixed market which has been in close proximity for ten (10) years. Expenses have trippled or better from ten (10) years ago. Interest has doubled and at times trippled. Yet income has remained the same and at times lower.

So...

Expense	Interest Rate	Income
No way of change		No way of Change

The only way to make income match or cover expense and interest rate is to reduce the interest rate down to where it will cover. Those who haven't any debt to service from the income are still solvent, but losing ground each year.

If there is any way to cut the interest rate, that will be the biggest help of all.

We have had no help from FDIC or the banks for three months. All reserves are now gone. The Good Lord has been good to us with the weather. In seven of the past ten years we have had weatherlike the east and south now have, for from five to seven months. We have deep feelings for these people, but have nothing to offer them but prayers.

We do hope this information will be of help in some way. Thanks for your help so far.

We are enclosing a letter for your to deliver to Secretary Block. You may read it.

I do believe Mr. Stockman need to go on a food less diet.

Very truly yours,

Alvin J. Kroeger
(605) 822-4235

AJK/db

cc

North Route
Cody, Nebraska 69211
February 6, 1985

Secretary Block
Dept. of Agriculture
Washington, D. C.

Dear Secretary Block:

We were unable to get on your program with Congress Woman Virginia Smith.

We are very well aware of the plight of the Rural man with no credit. We are here in the area with two banks closed and the PCA's. The Banks were reopened by two other banks that haven't any interest in Ag loans. This covers an area 200 miles wide and 100 miles deep. We are in a squeeze between the FDIC and the lenders, jockying for the advantage.

You talk of Market Oriental Ag!

As you should be aware of, as a Hog operater, we are and have been market controlled on the income end, in the Livestock industry. Also, our investment in our business is much higher for the turnover than any other business.

We buy retail and sell wholesale. Worse than wholesale. We aren't allowed cost of operation.

You say our product is too high priced for the world market now. How can we produce it cheeper without control of the cost of what we buy or of the interest we have to pay for our credit that is now needed to operate? We pay everyone elses wages, interest, transportation, advertising, and yes even their profit. Yet we are told we can't meet our cost of production let alone any profit or labor for ourselves.

The Crisis Group from Emmerson have any idea to take care of our interest of which I see as the only way to make our income cover the debtor expense. Chrysler couldn't exist selling for below cost of productions, but yet we are supposed to. Our Bankers are worried of Ag taking them down with us. Their lack of cooperation and greed is one of the biggest problems of Ag.

FmHA hasn't kept pace with the inflation rate. Their limits are too low. We have a Vet with a Chinchilla hobby that has over $100,000, invested and thats a hobby.

Inflations has brought an operation up to where a kid with a 4-H product is classified as a small farm. People with 100 cows now connot live on their generated income with no debt. The people so doing are working full time at another job to support the place.

The Federal Reserve of K.C. says there are 20 farms going out every day in Nebraska, also one business for five farmers. How long can this go on? It isn't all over priced land and big machinery that is doing it either as Mr. Stockman seems to think.

We are sending this through Congresswoman Virginia Smith as your address is hard to come by out here.

You have an invitation to come out here to see first hand. We will be glad to house and feed you. At no expense to the Government or you.

Mrs. Smith can explain and answer your questions as she has all the details of our plight.

Very truly yours,

Alvin J. Kroeger
Cody, Nebraska 69211
(605) 822-4235

AJK/db

Marion, South Dakota
February 12, 1985

Dear Senator Abdnor;

I am unable to attend your hearings and am submitting the following testimony:

The plight of the farmers in this country is in the news daily, Many people including our elected officials are searching for ways to assist the farmer, and especially the family size farmer. Most of the proposed solutions cost money. Some cost a great deal. One solution which will have a salutory long term effect for the American farmers will cost the U.S. treasury nothing. In fact it will generate billions of dollars for the treasury and at the same time is the single most important step that can be taken to restore the U.S. farming industry to a healthy state. The bill introduced by Sen. Abdnor to remove farming as a tax shelter is vital. Farming losses, depreciation and investment credit should be charged against farm income only. Thus no bonefide farmer will be penalized.

Those elected officials not representing rural populations should consider carefully if pleasing the wealthy minority is really more important than the health of the most important industry in the U.S. One thing is certain, once family size farm operations are all driven out of existance by a combination of government programs - favoring the big farmers, and a tax system that rewards big operators at the expense of small operations, then food prices will rise dramatically. Most farmers' return to labor is less than mimimum wage, and self employed always work better than hired help. Don't penalize the farming sector of America for the sake of a greedy few.

Sincerely yours.
Larry Eisenbeis

Chris Eisenbeis
RR 1, Box 123
Hurley, SD 57036

February 11, 1985

Leslie Mehlhaff, Field,Rep.
Sen. James Abdnor
P. O. Box 873
Sioux Falls, SD 57101

Dear Leslie:

I will not be able to attend Sen. Abdnor's hearing on "Taxes and Agriculture" to be held i. Brookings on Wednesday. However, I would like the following statement to be included as written testimony.

My name is Chris Eisenbeis. This will be my third year as a farmer in rural Hurley, SD. I applaud your bill S.244 on tax-loss farming. The large amount of opposition generated when you introduced a similar bill last year certainly indicates that there is big money at stake. Obviously the people who have been benefiting at the farmers' expense do not want to see such a bill passed.

I for one have to make a profit to stay in farming. So there is no way I can compete with tax-loss farmers who don't need to worry about profits. The passage of this bill into law would certainly be a big boost to the farm economy.

Sincerely,

Chris Eisenbeis

Chris Eisenbeis

2-12-85

Dear Sir:

The definition of a drug by the FDA should be changed so foods and food supplements are not considered drugs, even though healthful food will make anyone healthier. Bran should stay classified as a food.

Why is raw milk illegal to be sold in interstate commerce?

Drugs will never cure any disease; they only cover up the symptoms. Cancer can be controlled by other means than with drugs or chemotherapy more successfully. I am speaking from experience of when I had cancer. It was very painful, and now the pain is gone. I never received any drugs or chemotherapy as treatment for the cancer. My doctor also said the cancer is gone.

There should be a full investigation of the AMA on why they are trying to keep people sick. Is it for their own special interests so they can make big profits? Drugs should not be used at all in treating illness, because drugs only mask the problem and cause other problems. Seventy-five percent of the people in hospitals today are in there because of problems caused by prescription drugs and their side effects and residues.

Pharmaceuticals should also be investigated of what they are trying to do with drugs. Are they sophisticating themselves to the point of extinction?

Why are they recommending by-pass surgery when it doesn't lengthen life or solve the problem they had in the first place, because it only works on one spot and is only temporary. There are ways to eliminate this problem without this big expense and surgery.

Mechanical hearts are the joke of the century. They never did solve the problem.

Sincerely yours,
Angie Koerner
Mrs. Angie Koerner
RR 1 Box 65, Freeman, S. D. 57029

Farm Credit Banks of Omaha

206 S. 19th Street
Omaha, Nebraska 68102
Telephone (402) 444-3333

February 12, 1985

The Honorable James Abdnor
United States Senate
309 Hart Building
Washington, D.C. 20510

Dear Senator Abdnor:

We received your January 18 letter outlining hearings that you will be conducting on the agricultural and rural economy, and how the rural economy contributes to and is affected by other United States' and world economic conditions. We applaud you for your efforts in this endeavor.

The Farm Credit Banks of Omaha are made up of three banks, the Federal Land Bank, the Federal Intermediate Credit Bank which loans money to the Production Credit Associations, and the Bank for Cooperatives. As a holder of approximately one-third of the agricultural debt in the Omaha district, which includes South Dakota, we are acutely aware of the current economic stress that agriculture is undergoing. As financial backers of agriculture to the farmer through Federal Land Bank and Production Credit Associations, and as a supplier to the farmer through our cooperatives, we are most concerned with the present economic condition.

We would like to respond to your request for volunteers in establishing the Abdnor Task Force on the Rural Economy. The Farm Credit Banks of Omaha would be willing to help in any way that we can to ensure that you receive the necessary help and information in order to make an impact in this area. Please feel free to call on this office for any assistance that you might need.

Sincerely,

Michael V. Dunn

Michael V. Dunn
Vice President
Government Relations

kj

Federal Land Bank — Federal Intermediate Credit Bank — Bank for Cooperatives

SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

RAPID CITY, SOUTH DAKOTA 57701-3995

OFFICE OF THE PRESIDENT
PHONE (605) 394-2411

15 February 1985

Senator James Abdnor
United States Senate
Washington, D.C. 20013

Dear Senator Abdnor:

After I prepared my written statement for the meeting at Freeman on 11 February, I noted the article "The Agricultural Mechanization Controversy" by Philip L. Martin and Alan L. Olmstead which was published in the 8 February 1985 Science magazine (Volume 227, No 4687, p 601-606).

The article supports the concept I presented in my statement that research in agriculture should continue.

You may wish to include the article in your record of committee hearings.

Sincerely yours,

R. A. Schleusener

Richard A. Schleusener
President

RAS:vc
Enclosure

The Agricultural Mechanization Controversy

Philip L. Martin and Alan L. Olmstead

Five years ago attorneys for California Rural Legal Assistance (CRLA) filed a lawsuit, on behalf of 19 farm workers, that charged the University of California (UC) with unlawfully spending public funds on mechanization research that displaced farm workers. The trial began in March 1984 but was halted 6 weeks later when the judge became seriously ill. The case is scheduled to begin again before a new judge in November, so the controversy over publicly supported agricultural mechanization seems destined to continue.

California Rural Legal Assistance charges that "the basic policy goal" of mechanization research by UC is to develop "machines and other related technology in order to reduce to the greatest extent possible, the use of labor as a means of agricultural production" (*1*). Mechanization research is construed to include the development of machinery, crop varieties, chemical herbicides, growth regulators, and laborsaving methods of handling, transporting, and processing crops. CRLA alleges that such research (i) displaces farm workers, (ii) eliminates small farms, (iii) harms consumers, (iv) impairs the quality of rural life, and (v) impedes collective bargaining. The damages suffered by individual farm workers "are difficult to ascertain or compute" (*1*, p. 19), so CRLA has demanded that all mechanization research by UC be halted until the university creates a fund equal to the sum earned from agricultural license and royalty payments to be used to assist and retrain farm workers.

Federal and state governments allocate over $1 billion annually for agricultural research, and the Council of Economic Advisors reported that "the annual return to taxpayers from investing in agricultural research has been about 50 percent" (*2*). Mechanization research constitutes a small and declining share of publicly funded agricultural research expenditures. Even though only 47.5 scientific man-years of fruit and vegetable mechanization research were publicly funded in 1981 (*3*), opponents of mechanization claimed a major victory when they persuaded former Secretary of Agriculture Bergland to withhold Department of Agriculture funds for research projects when "the major effect of that research will be the replacing of an adequate and willing work force with machines" (*4*).

The outcome of the UC mechanization case could have broad implications for the larger research community. Because the legislation allocating public research funds usually contains multiple goals, a CRLA victory could inspire other advocacy groups to allege that university researchers are systematically pursuing only one of the legislative goals and to seek to stop such research until public interest review committees give their approval. A similar lawsuit could allege, for example, that university-developed information technologies displace clerical workers, and could seek to halt such research.

In this article the five CRLA charges are discussed and the evidence for each is examined. The lawsuit raises important issues about the consequences of publicly funded agricultural research, but we conclude that CRLA's evidence for each charge is ambiguous at best.

Summary. Attorneys of California Rural Legal Assistance are suing the University of California on behalf of 19 farm workers, alleging that publicly funded mechanization research displaces farm workers, eliminates small farmers, hurts consumers, impairs the quality of rural life, and impedes collective bargaining. This article reviews the evidence and finds that it does not support the charges. The mechanization lawsuit is important because applied research by universities is often authorized by legislation stipulating multiple goals, leaving researchers and universities vulnerable to lawsuits alleging that only some of the legislative goals are being pursued.

Farm Workers

The CRLA lawsuit alleges that "the principal purpose of defendants' [UC's] commercial mechanization projects is to replace workers with machines . . . thus directly threaten[ing] the jobs, livelihood, and well-being of the hundreds of thousands of the State's most vulnerable workers who cultivate and harvest California's crops, and impose upon taxpayers the attendant costs" (*1*, p. 13). CRLA argues that mechanization research by UC has or will displace workers in a variety of fruit and vegetable crops, including grapes, oranges, peaches, lettuce, and tomatoes. The lawsuit alleges, in particular, that the mechanical tomato harvester developed by UC researchers reduced the peak number of tomato harvest jobs from 50,000 in 1963 to 18,000 in 1970.

Tomatoes—worth $1.1 billion in 1982—are the most valuable vegetable grown in the United States. There are two kinds of tomatoes: hand-harvested fresh tomatoes, whose production is concentrated in Florida, and processing tomatoes, almost all of which are harvested mechanically in California. The California processing tomato harvest was mechanized in the 1960's after UC plant scientists developed a uniformly ripening tomato and engineers built a machine that could cut the plant, shake off the tomatoes, and move them past electronic and hand sorters. Employment and wage data are scant, but the best available evidence indicates that, before mechanization in 1963, 38,000 Mexican and 6,000 American men picked and sorted 2.5 million tons of processing tomatoes in California (*5*). Today, fewer than 8,000 harvest workers, primarily American women, ride the machines and sort more than twice as many tomatoes (*6*).

Mechanization reduced harvest employment, but it is not clear whether the tomato harvester, on balance, destroyed or created jobs in California. When the bracero program that began admitting temporary farm workers from Mexico in

Philip L. Martin is associate professor of agricultural economics and Alan L. Olmstead is professor of economics and director of the Agricultural History Center, University of California, Davis 95616.

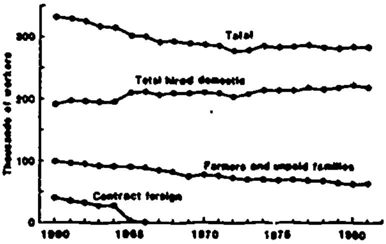

Fig. 1. Agricultural employment in California, 1960 to 1981 (26).

1942 was terminated in 1964, many tomato growers and processors believed that the tomato industry would be forced to follow its work force to Mexico, as happened to canned asparagus. Thus it could be argued that mechanization helped to keep processing tomatoes in the United States, thereby preserving jobs for American workers. In any case, the expansion of tomato acreage facilitated by mechanization created jobs for irrigators, equipment operators, and cannery workers.

The focus on tomatoes by CRLA obscures important shifts in California agriculture and could give the misleading impression that agricultural employment opportunities have declined drastically. In fact, since 1960, job losses due to mechanization have been more than offset by the expansion of labor-intensive agriculture in California. Mechanical harvesters of tomatoes, cotton, and sugar beets, along with herbicides that displaced hand hoers and the introduction of bulk bins and forklifts into fields and packing sheds, eliminated several hundred thousand seasonal farm jobs throughout the state (7). But affluence, population growth, and awareness of health increased the demand for labor-intensive fruits and vegetables, creating new jobs faster than these technological changes eliminated them. The average annual number of domestic farm workers employed in California was 192,000 in 1960, 211,000 in 1970, and 224,000 in 1980 (Fig. 1). University research led to the creation of many of these new jobs; plant breeding research, for example, helped to triple strawberry yields in the 1960's and 1970's and lengthened the harvest season from 2 to 6 months, substantially increasing the demand for labor.

Mechanization also affects the nature of harvest jobs and the life-cycle employment patterns of farm workers. Most fruits and vegetables are picked by young men for piece-rate wages (such as 40¢ per bucket of tomatoes). However, stooping and lifting 40- to 60-pound bags or working on ladders in extreme heat takes its toll on the workers' backs, and few individuals continue to do such work for more than 15 years (8). Older workers gravitate from piece-rate harvesting jobs that enable young workers to earn $5 to $10 hourly to lower wage but easier irrigation or hoeing jobs in U.S. agriculture or they return to Mexico. Even if there had been no mechanical tomato harvester, the tomato work force of the 1960's would have quit harvesting in the 1970's. All industries experience worker turnover, but turnover in the hand-harvest labor market is particularly rapid. Mechanization reduces the arduous nature of harvest work and permits remaining farm workers to operate equipment and sort commodities for longer periods.

Small Farms

Land-grant universities are required to expend public research funds "to promote the efficient production, marketing, distribution, and utilization of products of the farm . . . and to promote a sound and prosperous agriculture and rural life" (9). CRLA charges that mechanization research eliminates small farms because the new machines require large acreages to operate efficiently. It argues that, by adopting laborsaving machinery and spreading its fixed costs over more acres, large farms can reduce commodity prices enough to force small farmers out of agriculture.

Much of the evidence for this charge is obtained from the processing tomato industry. CRLA alleges that the number of processing tomato farms in California decreased from 4000 in 1963 to 600 in 1973, while the average acreage planted in tomatoes increased from 32 to 363 acres. Since a tomato harvester costs $150,000 or more, mechanization makes "entry into tomato production possible only for the wealthy" (1, p. 16).

The CRLA does not include data sources in its brief, but *Census of Agriculture* statistics do not confirm the extreme structural shifts in the tomato industry adduced by CRLA. Growers of fresh and processing tomatoes are not separated in these statistics, which show that the number of tomato growers in California decreased 36.5 percent between 1959 and 1978, from 2724 to 1729, and the average tomato acreage per farm increased 164 percent, from 57.6 to 152.3 acres. Indeed, the tomato industry in California experienced more structural changes in the 20 years before mechanization; between 1945 and 1964, the number of tomato farmers decreased 63 percent and the average acreage in tomatoes per farm tripled.

Mechanization contributed to the increase in the average tomato acreage on farms in the 1960's and 1970's, but other factors were also important (10). The completion of the California water system in the 1960's allowed the very large farms in the San Joaquin Valley to produce tomatoes. Fresno County, for example, increased its share of the state's total acreage planted in processing tomatoes from 2 percent in 1965 to 22 percent a decade later. Farms elsewhere in California that had produced tomatoes and several other commodities began to specialize more in tomatoes.

Concentration and specialization in tomatoes mirrors broader changes in agriculture and in the nonfarm economy. During the 1920's, there were more than 80 automobile producers in the United States compared to five today. The number of farms in America peaked at 6.8 million in 1935, then dropped sharply in the 1950's and 1960's as farmers were pushed by overproduction and low prices and were pulled out of agriculture by relatively high and stable industrial wages. The efficient and ambitious farmers who remained bought additional land to utilize new machinery efficiently, and the average size of farms increased from 213 acres in 1950 to 401 acres in 1978 (11). Even without a mechanical tomato harvester, there would have been concentration and specialization in the tomato industry because other factors also promote fewer and larger farms. For example, federal support payments put floors under the prices of some commodities, stabilizing prices and encouraging farmers to expand. Inflationary expectations, ambitious farmers, and farm credit programs also stimulate the growth in farm size.

Furthermore, it is a mistake to assume that a machine's characteristics necessarily dictate farm size. Social scientists testifying for CRLA emphasize the tendency of laborsaving harvest machinery to require more acres to operate efficiently than the average-sized farm contains. According to these witnesses, if researchers develop a peach harvester that requires 50 acres to operate at lowest costs, but the average peach farm has only 30 acres, then research is promoting larger peach farms instead of being scale-neutral. However, custom harvesting, equipment sharing, and rental markets can permit the efficient use of machinery on small farms, helping to diminish any scale economies associated with machinery. In 1982 California farmers spent $307 million on custom work and rental equipment, more than they spent on electricity.

Mechanization is one of several factors that have generated the bimodal structure of agriculture. There are 2.4 million farms in the United States, but a small percentage of large and specialized farms produce most of the nation's food and fiber (Fig. 2). In 1981 farms that sold $100,000 or more in farm products accounted for 68.4 percent of cash farm receipts and earned $19.9 billion, or 101.5 percent of total net farm income of $19.6 billion. At the other end of the sales spectrum, the farms that sold less than $20,000 each in products collectively accounted for 6.5 percent of cash farm receipts and lost $1.6 billion on farming. These small farms still had family incomes above the U.S. average because their farming losses were offset by $29 billion in nonfarm income.

Many mid-sized farms that sell $20,000 to $99,999 in farm products annually have been in trouble recently, apparently being too big to permit the operator to have a nonfarm career but not big enough to reap economies of scale. The 674,000 mid-sized farms were 26.7 percent of all farms in 1981 and accounted for 25.1 percent of farm sales, but earned only 6.5 percent of net farm income. Mid-sized farms obtained only $6.2 billion in nonfarm income and $1.3 billion in net farm income in 1981, yielding lower average total household incomes than small farms. Small farm households averaged $13,000 to $24,443 versus $9,285 to $12,358 for mid-sized farms, while the 1981 median household income in the United States was $20,243 (12).

Some of the struggling small and mid-sized farmers undoubtedly need technical, managerial, and marketing assistance. However, many of these farms are operated as hobby or tax-loss enterprises. It may not be in the public interest to reallocate research funds to benefit primarily 2 million farms that produce less than one-third of the nation's farm products until much more is learned about the diverse goals, motives, and needs of these farmers.

While farm production has become increasingly concentrated, the number of small farms continues to increase. Rural population growth exceeded urban population growth in the 1970's, and the number of small farms in California has increased by more than 4 percent annually since 1978, with most of the increase in the very small class having sales of less than $5000 (13). The structure of agriculture is becoming polarized: large and specialized farmers produce 70 percent of the nation's food and fiber, while numerous small farmers, who depend on their nonfarm incomes, contribute little to total farm output. Mechanization plays a role in this evolving structure of the U.S. farming industry, permitting some farmers to manage large units efficiently while allowing others to operate small farms as part-time or hobby operations.

Consumers

Scientists who believe that their research has helped to make agriculture the crown jewel of the American economy might be surprised by the CRLA charge that mechanization research has not "benefited the interests of consumers" because mechanization concentrates production and raises prices to consumers. This implausible conclusion rests on a peculiar interpretation of events in the processing tomato industry. CRLA alleges that the retail price of a can of processed tomatoes rose 111 percent between 1964 and 1975, compared to only 41.9 percent for hand-picked strawberries and 74.2 percent for all processed fruits and vegetables (1, p. 17; 14).

Retail price comparisons can be misleading for several reasons. First, prices reflect the influence of demand and supply conditions, so prices should rise fastest for commodities whose per capita consumption increases most rapidly and/or whose yields increase slowly. The 1960's and 1970's were the decades of the pizza and pasta revolutions, in the course of which annual per capita consumption of tomato paste and sauce jumped 82.5 percent, from 8.0 pounds in

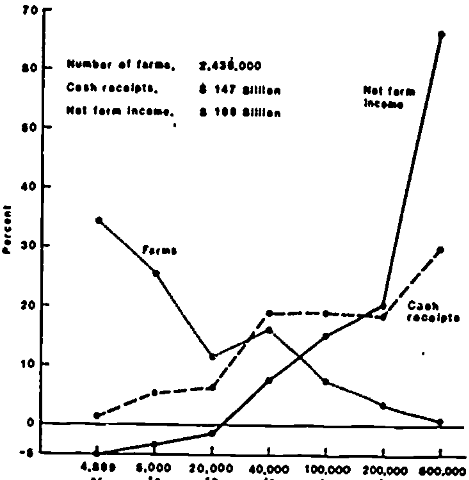

Fig 2. Farm structure in the United States, 1981 (27).

1962 to 14.6 pounds in 1979, while per capita consumption of all processed vegetables that are canned increased only 17.7 percent, from 45.2 to 53.2 pounds. Furthermore, processing tomato yields in California increased 15.7 percent between 1964 and 1975, compared to 50.4 percent for strawberries, the commodity CRLA chose for comparison (15).

Critics of mechanization often allege that the quality of machine-harvested products is inferior to hand-harvested commodities, inspiring allegations that the tomato harvester is responsible for the "hard" tomatoes sold in supermarkets. This is false: the tomato harvester was developed to harvest processing tomatoes (that is, tomatoes to be canned), not fresh market tomatoes. To maximize the selling period, most fresh tomatoes are picked when they are green and then ripened with ethylene gas. This procedure is followed whether the tomatoes are picked by hand or machine. Mechanical harvesting improves the nutritional quality of many commodities because machines permit the harvest to be accomplished quickly, when the commodity is at its peak quality (16).

Rural Life

California Rural Legal Assistance charges that the mechanization projects of UC "have had a severe detrimental effect on the quality of life in rural California . . . [because] residents of rural California communities, with the larger-scale cropping patterns resulting from mechanization, have much less access to a wide variety of businesses and private and public services than those who live in communities with smaller-scale, nonmechanized cropping patterns" (1, p. 18). The research cited to support this charge is a 1940's comparison of two California towns that allegedly were similar except that one (Arvin) was surrounded by large farms and the other (Dinuba) was surrounded by small farms (17). Goldschmidt (17) reported that large farms lead to more income inequality, fewer nonfarm businesses and public services, and less community spirit.

It is very hard to find two towns that are identical in all respects other than the size of their surrounding farms. Careful reanalysis of the data on Arvin and Dinuba indicates that the two farming communities were not similar (18). Farmers in Dinuba found water at relatively shallow depths, so family farms could pump it at low cost; Arvin farmers had to drill wells several hundred feet deep. Dinuba was older and had developed labor-intensive vineyards and orchards, while Arvin farmland had been brought into production several decades later when costs and prices favored field crops that are grown on larger acreages. Differences in transportation facilities, soil characteristics, and other factors undermine the cogency of CRLA's assertion that farm size and the quality of rural life are linked.

More recent studies also conclude that large farms can diminish the quality of life in rural towns (19). But the towns in question are surrounded by enormous farms averaging more than 2,000 acres each, with some units controlling more than 50,000 irrigated acres. These farms have whole fleets of harvest machines; for example, one cotton farmer in California operates more than 50 mechanical cotton harvesters. Clearly, the economic advantage associated with one machine is not the determining force behind such

Table 1. Labor requirements for major California commodities, 1976 (23). The total hours for heavy manual labor, light manual labor, and semiskilled labor does not equal total man-hours because irrigation and equipment operator hours are excluded. NA, information not available.

Commodity	Acres (thousands)	Peak employment statewide	Total man-hours (millions)	Heavy manual labor hours (millions)	Light manual labor hours (millions)	Semiskilled labor hours (millions)	Mechanization (percent)
			Fruits				
Grapes	570.7	118,650	51.34	27.42	14.92	9.21	
Raisin	236 7	39,300	20.99	12.59	5.25	3.36	7
Wine	270 8	2,750	21.66	11.70	5.85	4.11	25
Table	63.2	76,600	8.69	3.13	3.82	1.74	0
Oranges	197 7	5,630	26.68	19.75	1.07	5.87	
Navel	114 9	NA	15.51	11.48	0.62	3.41	0
Valencia	82.8	5,630	11.17	8.27	0.45	2.46	0
Peaches	71 5	12,970	16.41	10 92	3.07	2.58	
Clings	49 8		9.62	5 96	1.92	1.83	20
Freestone	21.7		6.79	4.96	1.15	0.75	NA
Lemons	47.5	4,080	6.95	4.73	0.76	1.46	NA
Plums	24 7	7,750	5.78	4.22	0.98	0.58	0
Cherries	13.0	10,900	3.70	3.37	0.11	0.22	10
Pears	37.5	7,450	8.59	3.35	3.78	1.46	0
Apples	21 6	NA	4.09	2.70	0.30	0.53	15
Olives	30.7	NA	3.22	2.30	0.31	0.61	0
Nectarines	13 1	NA	3.30	2.21	0.66	0.43	NA
Avocados	29.1	NA	3.05	2.18	NA	0 87	0
Apricots	27.9	10,360	3.73	2.05	1.12	0.56	15
Grapefruit	16.5	NA	2.23	1.65	0.09	0.49	NA
Subtotal	1,101.5	177,790	159.07	86.85	27.77	24.87	
			Vegetables				
Lettuce	156.1	7,100	12.49	6.24	1.87	4.38	NA
Tomatoes							
Fresh	29.8	28,150	5.36	4.47	0.30	0.59	10
Processing	269.8	NA	14.54	NA	8.29	6.25	100
Celery	19 4	NA	4.62	2.72	0.55	1.35	35
Broccoli	51.0	NA	4.08	2.19	0.80	1.09	0
Cantaloupes	36.3	5,720	4.18	1.63	1.44	1.11	NA
Cauliflower	26.2	NA	2.53	1.57	0 47	0.49	0
Asparagus	32.1	5,790	1.77	1.43	NA	0.34	0
Subtotal	620 7	46,790	49.57	20.25	13.72	15.6	
Total	1,722.2	224,580	188.64	107.1	41.49	40.47	

large farming units. This extraordinary size is the result of land, water, and credit factors, not mechanization research. There is no evidence to support CRLA's inference that a machine that operates at lowest cost on 50 acres of peaches when the average farm has 30 acres will diminish the quality of rural life.

Collective Bargaining

California Rural Legal Assistance alleges that "mechanization projects have assisted and will continue to assist California agribusiness in attempting to thwart the efforts of farmworkers to act and bargain collectively concerning their working conditions" (*1*, p. 19). Such research allegedly runs contrary to the 1975 California Agricultural Labor Relations Act, which grants organizing and bargaining rights to farm workers and declares that "the policy of the State of California [is] to encourage and protect the right of agricultural employees" to organize and bargain with their employers.

Seven unions represent about one in six California farm workers (*20*). The largest union is the United Farm Workers (UFW), headed by César Chávez. The UFW members are concentrated on corporate fruit and vegetable farms. Although the UFW's policy toward mechanization has not been consistent, the union typically includes a mechanization clause in its contracts that requires the employer to bargain with the union over the introduction of laborsaving equipment and permits the union to call a strike if no agreement on laborsaving machines is reached. The UFW is not a party to the mechanization lawsuit.

Farm worker unions have four sources of bargaining power: strikes, control over the supply of labor, political action, and consumer boycotts. Since consumer demand for food is inelastic, strikes often backfire because, by reducing production, they increase the prices and profits of farmers who are able to continue harvesting. Farm worker unions find it hard to halt production entirely because farm labor contractors supply far more (illegal) workers than do union hiring halls. Thus the unions devote most of their resources to political and legal actions and to consumer boycotts. Political action has won for these unions special legal protections such as quick elections and a make-whole remedy that can provide back pay to workers if their employer refuses to bargain in good faith over legitimate bargaining issues, including the decision to mechanize harvesting. Consumer boycotts have been successful because corporate farms often produce a branded and premium-priced product that is vulnerable to a boycott or because nonfarm subsidiaries and retailers can be picketed by striking farm workers. These political action and boycott weapons are not directly affected by mechanization.

Implications

The debate over farm mechanization research has been framed by critics who read the broad goals of federal and state agricultural research legislation and charged that UC researchers helped only agribusiness instead of the entire rural community they are supposed to serve. The CRLA lawsuit was viewed initially as a publicity-seeking stunt, but after the judge dismissed a request by UC that the issue be resolved in a legislature, not a court of law, research administrators were forced to reevaluate the merits of mechanization research.

Agricultural research has been an important stimulant to the growth in U.S. productivity and in agricultural exports. Economists usually oppose applied research by universities when there are few externalities and private firms can capture the benefits of their own R&D efforts. The benefits of inventing a new machine are more likely to be captured by the developer than the benefits of creating a new strain of wheat, and in fact most mechanization research has been conducted by the private sector. But development of the tomato harvester, the machine to which CRLA devotes most of its attention, required the teamwork of engineers, plant scientists, and food processing researchers in a way that the private sector was unlikely to accomplish. Many of the fruits and vegetables that continue to be hand-harvested will require a similar coordinated effort of scientists and engineers if mechanization is to succeed. When society can benefit through reductions in food prices, there may be an economic case for supporting public research even if no consideration is given to safety and health or to U.S. immigration problems. Land-grant universities can coordinate such research efforts efficiently.

A basic question is whether society should continue to encourage the historical process of mechanizing dangerous and undesirable jobs. For decades, makers of public policy have sought to eliminate such jobs by promoting research and enacting health and safety standards that make workers more expensive relative to machines. Clearly, research that eliminates stooping and lifting can lengthen the working lives of harvest employees and thus can help to achieve important social goals. Applied university research has developed backsaving harvest machinery and in-field conveyor belts that create seasonal jobs for local women. Mechanization and new plant varieties have lengthened harvest seasons and significantly reduced the migrancy of farm workers (*21*).

Cotton and sugar beets, which depended on armies of workers, were mechanized in the 1950's, and many nuts (such as almonds and walnuts) and vegetables (such as processing tomatoes) have now also been mechanized. The major labor-intensive commodities in California that continue to be hand-harvested include grapes, citrus and deciduous fruits, lettuce, fresh tomatoes, and other vegetables. Heavy manual tasks such as harvesting accounted for 56.6 percent of the 189 million man-hours needed to produce California's major labor-intensive crops in 1976 (Table 1). Without further mechanization, the $7.1-billion fruit, vegetable, and horticultural industry in California will continue to employ 200,000 to 300,000 illegal aliens or undocumented workers (*22*).

American agriculture has become increasingly integrated into the international economy. During the 1970's the value of U.S. farm exports increased more than five times, and the favorable balance of agricultural trade increased 13-fold, helping to offset the increased cost of oil imports. The ability to compete differs significantly by commodity, with highly mechanized U.S. crops being the most successful in international markets. In 1983 the United States exported three-fifths of its wheat production but only 5 percent of its fruit and vegetable output. American farmers face increasing competition in these labor-intensive crops from Israeli olives, Turkish raisins and apricots, Colombian roses, and Brazilian and Spanish citrus. The fruit and vegetable industry, which has already shifted in the U.S. from the northeastern garden states and the Midwest to the West and South, is becoming a global industry that searches out the least expensive areas for production. Slowing the rate of mechanization is a prescription for increasing the industry's vulnerability to foreign producers and intensifying the pressure on American fruit and vegetable farmers to import foreign workers who are willing to work for low wages. This could complicate the nation's already serious immigration dilemms and perpetuate the "harvest-of-shame" wages and working conditions that isolate the harvest labor market from other U S. labor markets.

Instead of preserving a labor-intensive industry dependent on alien workers in the United States, a rational strategy might be to phase out dependence on foreign workers by mechanizing wherever possible and importing more of the commodities that cannot be mechanized. If immigration reforms reduce illegal immigration, farmers will demand legal foreign workers, as during the bracero period. An integrated policy to phase out dependence on foreign workers, generate research funds, and establish a program to assist displaced workers could be financed by a foreign-labor payroll tax to be paid by the employer as a percentage of his wage payments to legal foreign workers (23). Farmers who did not rely on foreign workers would not be burdened with such a tax, while those who depended heavily on foreign workers could generate substantial research and assistance funds (24).

Fruit and vegetable growers paid one-third of the nation's $12-billion farm wage bill in 1982. If half of this $4-billion wage bill were earned by legal alien workers after immigration reforms reduced illegal immigration, a 10 percent employer payroll tax would generate $200 million annually to reduce the fruit and vegetable industry's dependence on foreign workers. A 10 percent tax would be reasonable because employers would save this much by hiring legal foreign workers, who do not participate in the Social Security program (7 percent) and in most unemployment insurance systems (3 percent). A $200-million tax could triple the total amount spent annually on fruit and vegetable engineering research ($5.7 million) and on farm worker employment and training programs ($64 million). Furthermore, such a tax would make legal foreign farm workers more expensive, encouraging farmers to recruit more American workers instead of simply selecting workers from the vast labor forces of Mexico and the Caribbean.

The CRLA mechanization lawsuit avers that UC scientists received public funds to conduct research with broad policy objectives, but that the research conducted benefited only agribusiness. CRLA has asked a judge to halt the expenditure of public funds on mechanization research until an external review procedure is established to ensure that research proposals have satisfied the broad policy objectives of the enabling legislation. This review procedure is to be augmented by a farm worker assistance fund equal to the amount earned from mechanization patents and royalties.

The mechanization lawsuit touches a responsive chord because of widespread sympathy for farm workers. CRLA supporters consider the mechanization research conducted by UC as an example of how powerful agribusiness interests use public institutions at the expense of powerless workers and consumers. But the empirical evidence mustered by CRLA is, as we have seen, ambiguous at best. The illegal or undocumented nature of the farm work force indicates a need to support mechanization research programs in order to create more desirable jobs and to keep the American fruit and vegetable industry competitive in the international economy.

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28. This work was supported by research grants from the University of California, Davis; the German Marshall Fund; the Rosenberg Foundation; and the National Endowment for the Humanities. We are indebted to W. Johnston, A. McCalla, J. Midgely, S. Sheffrin, B. French, C. McCorkle, G. King, E. Learn, D. Gardner, H. Carter, P Lindert, and R. Garrett for helpful comments. R. Amon provided research assistance.

RURAL MAIN STREET: AN AMERICAN INSTITUTION

WEDNESDAY, MAY 8, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SR-485, Russell Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and D'Amato.

Also present: Robert J. Tosterud, deputy director; and Dale Jahr, professional staff member.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The Subcommittee on Agriculture and Transportation of the Joint Economic Committee will come to order.

I'm happy to welcome our witnesses here today, and some of them have traveled quite a distance. I'm particularly proud to have a gentleman from South Dakota.

Also, I would like to note that Dr. and Mrs. Merryman from Rapid City are our guests here this morning. His son works here in Washington. We welcome everyone to the hearing.

This is a very, very important initial hearing for us here in Washington on our key subject of rural America, and I think we are getting off to an unusually fine start with the witnesses that we will have testifying.

Throughout much of the country, the economic news is good. The United States is in its 29th month of economic growth. In 1984, we achieved our greatest growth in some 30 years. But we must also face some very harsh facts. Not all of America is enjoying this new prosperity, or the new growth and new opportunities.

Rural America specifically represents what I call the forgotten economy. Devastated by years of recession in the agricultural and natural resource industries, hundreds of small towns and main streets are on the verge of economic extinction. We can't allow this to happen. And, as vice chairman of the Joint Economic Committee, I have taken this committee into a project that I believe to be unprecedented in Congress in terms of its scope and magnitude.

I am undertaking a comprehensive rural issues initiative which will explore all aspects of rural America, its people, its heritage and its future.

The topic of this rural agenda includes not only economic development issues but also other vital aspects of community development which foster both economic growth and a higher quality of life.

These include education, health care, community services, infrastructure improvement, and applications of new technology, just to name a few.

Now we begin this process we started back in February, in a small progressive town in South Dakota. And in that hearing in a small town of Freeman, some 400 persons came to participate and make suggestions on how South Dakotans can improve their way of life. It showed me that there is a belief and a desire in this country that Congress should place the concerns and the aspirations of all rural America on its agenda of priorities.

So, as we continue this process, we turn our attention today to American institutions that all of us share in common. The phrase, "Main Street," evokes a great deal of memories for all of us. My father operated a dry goods store in Kennebec, SD and as one who provided cheap labor for that business, I can tell you that I have strong feelings about America's Main Street merchants.

The business districts of our rural communities not only provide material needs and support services, but they also give our communities leadership and direction. They are what the free enterprise system is all about.

But, now, our main streets are facing the challenges faced by all of rural America as we see fundamental changes taking place in our world economy. Population in many rural areas is declining. In fact, one-fourth of all counties in the United States have experienced decreases since 1980.

Furthermore, the rural population is older than the U.S. population as a whole. Also, rural household income is 40 percent less than metropolitan household income. These are indeed discouraging trends and they must be addressed.

But there are other factors as well that have to be considered. We are realizing more all the time that our rural economy affects and is affected by a national and global economic trend. Factors such as monetary policy, interest rates, exchange rates and the world prices of commodities influence our rural livelihood, and no economic force has more influence than the technology.

As new innovations revolutionize the way we work and live, rural America must play a role in developing and adapting and using this new technology.

So it's with great pleasure that I have these people here today. I would also like to add on another note closely associated with this that, yesterday, the Senate passed my resolution limiting farm tax writeoffs by private investors. It was a sense of Congress resolution. There is widespread abuse of this program and my proposal is meant to protect the family farm. It's something I have been concerned about for a long, long time. The current raid on the Federal Treasury by so-called gentlemen farmers is not gentlemenly at all. It is out and out robbery and it should be stopped.

It is a crime that our federal tax laws allow wealthy individuals with large incomes to shelter their incomes with thousands of dollars of farm losses. It amounts to billions.

And now that the Senate is on record in favor of my proposal, we are much closer toward leaving farming to the rural farmers.

It is with great pleasure again, gentlemen, that I welcome you here today. We have a representation of hundreds of thousands of Main Street businessmen and those affected by the health and strength of Main Street, and look forward to hearing your remarks and participating in a discussion following your presentations.

Without objection, I have further remarks to include in the record.

[The written opening statement of Senator Abdnor follows:]

WRITTEN OPENING STATEMENT OF HON. JAMES ABDNOR

"RURAL MAIN STREET: AN AMERICAN INSTITUTION"

NO COMMITTEE ON CAPITOL HILL KNOWS BETTER THE GOOD NEWS ABOUT OUR CURRENT ECONOMIC RECOVERY AND EXPANSION. THE U.S. IS IN ITS 29TH MONTH OF GROWTH AND THE YEAR 1984 ACHIEVED THE HIGHEST GROWTH IN SOME 30 YEARS. BUT LET'S FACE IT: NOT ALL OF AMERICA IS ENJOYING THIS NEW PROSPERITY. NOT ALL OF AMERICA IS BENEFITTING FROM NEW GROWTH AND OPPORTUNITY. IN FACT, RURAL AMERICA REPRESENTS WHAT I CALL THE "FORGOTTEN ECONOMY." DEVASTATED BY YEARS OF RECESSION IN THE AGRICULTURAL AND NATURAL RESOURCE INDUSTRIES, HUNDREDS OF SMALL TOWNS AND MAIN STREETS ARE ON THE VERGE OF ECONOMIC EXTINCTION.

DURING MY PAST FOUR YEARS ON THE JOINT ECONOMIC COMMITTEE, MY EMPHASIS HAS BEEN TO TEACH THE WASHINGTON ESTABLISHMENT TO BECOME MORE AWARE AND APPRECIATIVE OF THE CONTRIBUTION THAT THE RURAL ECONOMY IS MAKING TO THE OVERALL U.S. ECONOMY. I AM HAPPY TO REPORT TODAY THAT I HAVE MADE CONSIDERABLE PROGRESS ON ACCOMPLISHING THAT OBJECTIVE. POLICYMAKERS FROM SUCH DIVERSE CORNERS AS THE COUNCIL OF ECONOMIC ADVISORS TO THE OFFICE OF THE U.S. TRADE REPRESENTATIVE HAVE A SENSITIVITY TO THE HEARTLAND THAT THE REAGAN ADMINISTRATION DID NOT POSSESS IN 1981.

BUT I CERTAINLY AM NOT GOING TO REST WITH THAT SATISFACTION. WE HAVE JUST LAID THE FOUNDATION TO DATE. NOW WE'RE GOING TO BUILD ON IT IN A MANNER UNRIVALED FOR DECADES. AS VICE CHAIRMAN OF THE JOINT ECONOMIC COMMITTEE, I AM UNDERTAKING A COMPREHENSIVE RURAL ISSUES INITIATIVE WHICH WILL EXPLORE ALL ASPECTS OF RURAL AMERICA -- ITS PEOPLE, ITS ECONOMY, ITS HERITAGE AND ITS FUTURE.

THIS RURAL INITIATIVE BEGAN LAST FEBRUARY IN A SMALL, PROGRESSIVE TOWN IN SOUTH DAKOTA. THE 15 HUNDRED RESIDENTS OF FREEMAN, SOUTH DAKOTA HOSTED THE MOST HEARTWARMING AND REWARDING COMMITTEE HEARINGS I HAVE EVER BEEN PARTY TO. SOME 400 PERSONS CAME TO PARTICIPATE AND MAKE SUGGESTIONS ON HOW SOUTH DAKOTANS CAN IMPROVE THEIR WAY OF LIFE. THIS EVENT WAS THE KICKOFF FOR MY TASK FORCE ON THE SOUTH DAKOTA ECONOMY. THIS GRASS-ROOTS GROUP HAS 150 MEMBERS FROM THROUGHOUT THE STATE WHO HAVE VOLUNTEERED TO SERVE AS MY STEERING COMMITTEE FOR MY NATIONAL RURAL INITIATIVE.

SINCE THE FREEMAN HEARING, I HAVE HELD ADDITIONAL MEETINGS OF MY SOUTH DAKOTA TASK FORCE. WITH THE RECOMMENDATIONS AND SUGGESTIONS OF THESE ABLE VOLUNTEERS, I HAVE PUT TOGETHER MY NATIONAL AGENDA, WHICH IS THE SERIES OF HEARINGS BEGINNING TODAY.

THE TOPICS OF MY RURAL AGENDA INCLUDE NOT ONLY ECONOMIC DEVELOPMENT ISSUES, BUT ALSO OTHER VITAL ASPECTS OF COMMUNITY DEVELOPMENT WHICH FOSTER BOTH ECONOMIC GROWTH AND A HIGHER QUALITY WAY OF LIFE. THESE INCLUDE EDUCATION,

HEALTH CARE, COMMUNITY SERVICES, INFRASTRUCTURE IMPROVEMENTS, AND APPLICATIONS OF NEW TECHNOLOGY TO NAME A FEW.

MY RURAL INITIATIVE ALSO WILL FOCUS ON FUNDAMENTAL PUBLIC POLICY CONSIDERATIONS DURING THIS ERA OF DYNAMIC CHANGES IN THE U.S. AND WORLD ECONOMIES. AMERICA CAN ILL-AFFORD TO HAVE ITS HEARTLAND LAG BEHIND THE RAPID CHANGES TAKING PLACE TODAY. THE CONTRIBUTION AND POTENTIAL OF RURAL CITIZENS CANNOT BE OVERLOOKED, DISREGARDED AND FORGOTTEN. THAT MISTAKE WILL IMPEDE THE PROSPERITY OF ALL AMERICANS.

YOU CERTAINLY WILL BE HEARING MORE FROM ME AND MY RURAL TASK FORCE IN THE WEEKS AND MONTHS TO COME, AND I INVITE ALL OF YOU HERE TODAY -- MY COLLEAGUES, THE PUBLIC, AND THE NEWS MEDIA -- TO JOIN ME IN THIS ENDEAVOR. I GUARANTEE IT WILL PAY HANDSOME DIVIDENDS TO EACH AND EVERY ONE OF US WELL INTO THE FUTURE.

MY DESIRED OUTCOME IS FOR THE RESOURCES OF THE JOINT ECONOMIC COMMITTEE TO OUTLINE A RURAL REVITALIZATION PROGRAM WHICH WILL REALIZE THE TRUE POTENTIAL OF THE HEARTLAND.

THANK YOU FOR ALLOWING ME TO PROVIDE AN OVERVIEW OF MY RURAL INITIATIVE. I THOUGHT A LITTLE DESCRIPTION WOULD BE HELPFUL FOR THOSE WHO WISH TO KEEP APPRISED OF OUR ACTIVITIES.

TODAY WE TURN OUR ATTENTION TO AN AMERICAN INSTITUTION THAT ALL OF US SHARE IN COMMON. THE PHRASE "MAIN STREET" INVOKES AS MANY MEMORIES AS ANY PHRASE CAN. WE ALL CAN

RECALL THRILLING MOMENTS OF OUR CHILDHOOD AND YOUTH REVOLVING AROUND EVENTS ON MAIN STREET.

AS WE GREW OLDER, WE LEARNED THAT MAIN STREET IN OUR HOMETOWNS WAS THE NERVE CENTER OF THE COMMUNITY. NOT ONLY DID MAIN STREET PROVIDE THE MATERIAL NEEDS AND SUPPORT SERVICES FOR OUR FAMILIES AND BUSINESSES, BUT MORE OFTEN THAN NOT, ALSO PROVIDED COMMUNITY LEADERSHIP AND DIRECTION. THE VOLUNTEERING SPIRIT AND CIVIC RESPONSIBILITY OF MAIN STREET BUSINESS OWNERS AND OPERATORS HAVE BEEN THE BACKBONE OF SUCCESSFUL COMMUNITIES EVERYWHERE.

FREE ENTERPRISE IS EPITOMIZED ON RURAL MAIN STREETS. IN FACT, THE ESSENCE THAT MADE AMERICA GREAT WAS BORN ON MAIN STREET: INDIVIDUALISM, PERSONAL INITIATIVE, AMBITION, SELF RELIANCE, RESPONSIBILITY AND REWARD FOR YOUR EFFORT.

OBVIOUSLY, MAIN STREET IS A VERY POWERFUL ENGINE OF OUR ECONOMY. NATIONWIDE, OVER 13 MILLION SELF-EMPLOYED PERSONS AND SMALL SOLE PROPRIETORSHIPS PROVIDE GOODS AND SERVICES FOR THE PUBLIC. NOT ALL OF THESE SMALL BUSINESSES ARE ON MAIN STREET, BUT THEY DEFINITELY ARE PART OF THE LOCAL ECONOMY AND THEY CREATE JOBS AND OPPORTUNITIES FOR OTHERS. IN FACT, OVER 300,000 NEW BUSINESSES CREATED IN 1984 CONTRIBUTED GREATLY TO OUR STRONG ECONOMIC GROWTH.

BUT THIS GREAT INSTITUTION MAIN STREET IS FACING BIG CHALLENGES OF THE 1980S. INDEED, AN ECONOMIC IDENTITY CRISIS IS OCCURRING IN RURAL AMERICA TODAY. BUSINESS

BANKRUPTCIES PLAGUE LOCAL ECONOMIES AND FACTORY LAYOFFS CURTAIL RETAIL SPENDING. AND THE RURAL ECONOMY IS FACING THE FIFTH STRAIGHT YEAR OF RECESSION IN AGRICULTURE AND NATURAL RESOURCES, A FACT TO WHICH OUR WITNESS FROM SOUTH DAKOTA CAN ELABORATE. FORTUNATELY FOR SOUTH DAKOTA, THE BUSINESS BANKRUPTCY SITUATION IMPROVED RELATIVE TO THE U.S. IN 1984.

RURAL AMERICA IS WITNESSING FUNDAMENTAL CHANGES TAKING PLACE IN THE ECONOMY. THE POPULATION IN MANY RURAL AREAS IS DECLINING. IN FACT, ONE-FOURTH OF ALL COUNTIES IN THE U.S. HAVE EXPERIENCED POPULATION LOSSES SINCE 1980. FURTHERMORE, THE RURAL POPULATION IS OLDER THAN THE U.S. POPULATION AS A WHOLE. RURAL HOUSEHOLD INCOME IS 40 PERCENT LESS THAN METRO INCOME. THESE TRENDS ARE NOT ENCOURAGING, BUT THEY ARE NOT THE ONLY FACTORS WHICH GIVE CAUSE FOR CONCERN.

AT THE SAME TIME THESE CHANGES ARE TAKING PLACE, THE RURAL ECONOMY HAS BEEN THRUST INTO THE U.S. ECONOMY AND GLOBAL ECONOMY AS WELL. NO LONGER IS THE RURAL ECONOMY INSULATED FROM MACROECONOMIC CHANGES, SUCH AS FISCAL AND MONETARY POLICY, INTEREST RATES, EXCHANGE RATES AND WORLD PRICES OF COMMODITIES. AND PROBABLY NO ECONOMIC FORCE HAS MORE INFLUENCE ON SOCIETY THAN TECHNOLOGY. OUR MODERN ECONOMY IS ON THE VERGE OF NEARLY-MIRACULOUS INNOVATIONS WHICH WILL REVOLUTIONIZE THE WAY WE WORK AND LIVE. IT IS IN THIS DYNAMIC SETTING THAT RURAL AMERICA MUST DISCOVER ITS FUTURE.

WITH GREAT PLEASURE I WELCOME OUR DISTINGUISHED WITNESSES. WE HAVE REPRESENTATION OF HUNDREDS OF THOUSANDS OF MAIN STREET BUSINESSES AND THOSE AFFECTED BY THE HEALTH AND STRENGTH OF MAIN STREET. I LOOK FORWARD TO HEARING YOUR REMARKS AND PARTICIPATING IN A DISCUSSION FOLLOWING YOUR PRESENTATIONS. THANK YOU ALL FOR COMING TODAY.

Senator ABDNOR. As our first witness, we will call on Mr. John Motley, Director of Federal Legislation for the National Federation of Independent Business.

John, we certainly welcome you to the subcommittee. I know of the many, many members you have out in places like Kennebec, SD, and we appreciate having the background of your knowledge and experience. Thank you.

STATEMENT OF JOHN J. MOTLEY III, DIRECTOR OF FEDERAL LEGISLATION, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. MOTLEY. Thank you, Mr. Chairman. On behalf of NFIB's 550,000 members across the country, most of whom reside in nonmetropolitan America, I want to thank you for the opportunity to come and appear before your subcommittee today to discuss rural main street and the businesses that populate it.

Roughly one-third of NFIB's members are located in rural areas of the country. Four out of every five of our members are located outside of standard metropolitan statistical areas. We have approximately 4,000-5,000 members in the State of South Dakota, so rural problems—small farm problems—are certainly those over which NFIB members across this country are very much concerned.

I think that there is absolutely no denying the fact that small-town businesses today, especially those that are located in rural America—which is dependent upon the farm economy—are hurting. There is no way their economic futures and livelihoods can be separated from what is happening to agriculture in this country today.

I think it's simply a matter of common sense that if the farm economy is not doing well, farmers aren't purchasing equipment and supplies, nor are they purchasing consumer goods. Thus, the businesses that populate Main Street across this country are not getting a normal level of business; their margins are smaller, their chances of going out of existence are greater. And, of course, this has a rippling effect because the local community, through its banks, has invested heavily in these businesses and in these farms. As the situation grows worse, the position of the banks and the credit situation in those communities grows a lot more tenuous. So there is really no denying the interdependence of rural small businesses and the agricultural economy of the country.

For the last 10 years NFIB has published a quarterly economic report of small business. It has proved to be remarkably accurate in predicting economic trends measuring optimism in the small business community, making employment projections, gauging expenditures and other types of plans. It is used rather extensively in Government and in the private markets today as a barometer of what is happening in the small business community across this country.

As a whole, small business is very optimistic about the economic future of the country; indications are these firms are doing very, very well. Small business came out of the recession lean, mean, and ready to be very productive. Therefore, small business profits today tend to be higher than they have been in the last several decades; all of this is true except for two striking exceptions.

The first is that small firms directly engaged in agriculture are far less optimistic than others, with only a very narrow majority expecting things to improve.

The second exception is that small firms from the West North-Central part of the country are by far the least optimistic of businesses polled as measured by geographic location. This area includes the farm States of Iowa, Kansas, Minnesota, Nebraska, and the Dakotas. For the record, at this point, Mr. Chairman, I'd like to submit the latest copy of NFIB's Quarterly Economic Report on Small Business, which is dated January 1985.

Senator ABDNOR. Without objection, it will be made part of the record and we are happy to have that.

Mr. MOTLEY. So I think the picture I am painting here is that you can separate Main Street small businesses—rural small businesses generally—from the good economic times that are being had by the small business community of this country as a whole, and say that they are doing less well and are a great deal less optimistic about their economic future.

The bright side of this is that we, in NFIB, believe that the causes of these problems can be treated, and that there are some solutions out there that Congress can pursue which would tend to improve the situation of these firms.

No. 1, I think it's obvious that something has to be done to treat the failure of the national farm policy of this country. NFIB does not pretend to be an expert on farm policy. As a matter of fact, it's probably an issue that we'd like to stay away from, except that so many of our members are directly dependent upon what is happening in agriculture that we feel that we have to begin to take a closer look at current policy and the one Congress will shape over the next year.

We believe that whether it is reforming current policy or doing away with it and moving toward a more market-oriented farm policy, something must be done soon by the Congress to address the ineffectiveness of farm policy in this country. Right now, NFIB is polling a series of questions related to farm policy in its mandate. As soon as the results of these surveys are in, we will share them with this committee and with others interested in farm issues, so that you have the current views of rural small business on these important matters.

The second thing that we think must be done is for the Congress to come to grips with the deficit. It's obvious that the deficit has caused many of the problems that we are now facing in the agricultural economy. Not only does it cause interest rates to remain high, but it has contributed to the tremendous strength of the U.S. dollar abroad, which has—in turn—shrunk the trade market for U.S. agricultural produce abroad.

Thus our second priority for improving the outlook for rural mainstreet is to deal with the deficit, and we would encourage you to urge your colleagues to be very, very tough in the next couple of weeks and try to report a deficit reduction package that will have the impact that is needed to begin to drive down interest rates and to create better markets abroad for American farm products.

Our third objective—and this really pertains more to small business in particular than to the whole rural economy—is to begin to look at ways to separate the connection between rural small business and the rural agricultural economy; in other words, to look at ways in which the rural economy can be diversified so that it is not totally dependent upon agriculture.

We have tremendous improvements in transportation and communications which have been occurring in this country in recent years, and we believe at NFIB that these improvements are going to open up new vistas for different types of small businesses to operate in the decades ahead. We would urge you as representatives of rural America to begin to look at ways to diversify the rural economy, looking to new economic opportunities such as working in the home with computers, credit card processing, insurance claims processing, and all the various different types of new industries which will spin off of this and which could be introduced and would grow in rural America.

Rural America offers tremendous employment advantages: a relatively high education level for employees, low cost of living, and a tremendous work ethic, all of which American business tends to evaluate before it makes its decision to locate. I think, with the focus of the Members of Congress who are concerned about the future of Main Street and the future of rural America, that you can probably come up with some ways to encourage this process and to speed it along.

To conclude, Mr. Chairman, while we feel that the current situation as portrayed in NFIB's quarterly economic report is certainly bleaker for Main Street business than it is for other small businesses across the country, we also believe that the problem is treatable. We believe that something has to be done about farm policy to make it work. We believe that something must be done about the deficit, or soon not only rural business will be suffering but all small business across this country.

Finally, we believe that there are opportunities out there in the changing American economy, in the changing technology of this country, to make rural America a seed bed for growing new small businesses. We would commend those thoughts to you and your subcommittee for further investigation.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Motley, together with the report referred to, follows:]

Prepared Statement of John J. Motley III

Mr. Chairman, my name is John Motley, and I am Director of Federal Legislation for the National Federation of Independent Business (NFIB). On behalf of the more than 500,000 small firms that make up NFIB, I want to thank you for this opportunity to discuss rural mainstreet--its present condition and the outlook for the future.

One third of NFIB's members are located in rural areas. If they are not directly involved in the farm economy, almost all of them are in some manner dependent upon it for their livelihood. Thus, while my remarks today will focus on the prospects for firms up and down America's rural mainstreets, it must be acknowledged that the fate of these businesses is tied to the fate of the nation's farms.

The interdependence of farms and other rural businesses is demonstrated well by the current farm crisis. The decline in farm income has had a ripple effect on farm-related and non-farm businesses alike. It is easy to map this development: farm income has been debilitated by the handicaps of a strong trade dollar and more than adequate domestic commodity supplies. At the same time, land values in rural areas have been declining drastically, even as real interest rates have remained high. The combination of these factors has slowly impoverished all but the very best-capitalized farms, generating a persistent recession localized in America's rural areas.

The specific problem of declining farm income has become generalized in the rural economy. Farmers have put off purchasing farm equipment and cut back on other supplies, causing hardship first for producers of durable goods, and increasingly, for local merchants. The decline in farm income has also meant trouble for rural banks, which have been failing in record numbers. As these banks have become unstable, small firms which depend upon commercial credit have suffered. Thus, the condition of small businesses on rural mainstreet has become as troubled as the farm community around it. Studies conducted by NFIB confirm this fact.

Each calendar quarter NFIB produces an economic report for small business. This report has been remarkably accurate in predicting trends in small business economic activity, measuring optimism, expected capital outlays, expected hiring, and other indices of the economic outlook for this sector. I am submitting with my testimony today a copy of our latest report, which I commend to the Committee's review. In it you will find that small business remains very optimistic about the economy, both across geographic and industry lines. There are two striking exceptions to this optimism, however. Small firms in the agriculture industry were by far the least optimistic about their economic future, with only a narrow majority believing that things would look up for them in the following three to six months. By geographic location, respondents in the West North Central part of the country (Iowa, Kansas, Minnesota, Missouri, Nebraska, and the Dakotas) were the least optimistic, with only 7% expecting better economic conditions. These results contrasted sharply with the optimism felt elsewhere and underscored the fact that the recovery has not reached rural America, including the small businesses on our rural mainstreets.

If the perspective presented here of rural mainstreet appears grim, the future need not be so. In our view the farm crisis and the consequent stagnation of the rural economy have root causes that are treatable But ensuring a better future for our farms and for other businesses in rural communities will depend upon recognizing these causes and facing up to the hard choices they dictate.

The major sources of the economic crisis in rural America are apparent to most observers, so I will not discuss them in detail here. Suffice it to say that the rural economy suffers from a lack of diversity, with farmers and non-farmers alike dependent upon the vitality of agricultural markets. Current farm policy does not allow for the efficient communication of information about these marketplaces (in the form of price discipline) to agricultural producers, and for this reason supply has consistently outstripped demand.

While NFIB does not profess any expertise in farm policy, it appears to us through our surveys and other evidence that present farm policy is not working. Our studies suggest adjustment must come to our farm policy and to the agricultural economy. Congress must investigate ways to provide a transition to this adjustment and identify long-term approaches that can restore farm income. NFIB is currently polling its members to discover whether they favor a reform of existing farm policies or the gradual phase-in of market-oriented policies. Once these results become available, we will share them with this committee and others in Congress.

Obviously much of the difficulty the rural economy now faces relates to matters other than our farm policy. In particular, the persistence of deficit spending has created an artificial demand for credit (increasing interest rates) and contributed to the high external value of the dollar (limiting trade opportunities for farmers). NFIB favors a comprehensive budget freeze plus additional spending reductions to reduce the deficit and to improve credit and trade opportunities for farms and other small businesses.

The vulnerability of the rural economy must be remedied, in our view, by pursuing two broad policies. The first of these must be to restore stability to the farm economy itself, which cannot be done without some economic or social cost. Thus, as I have already noted, Congress must take steps to reform farm policy so that farm income--and the rural income on which it depends--can be restored to reasonable levels. This change, coupled with deficit reduction and agricultural trade negotiations, could help restore a vital farm economy.

The second broad approach toward improving the rural economy is to undertake efforts to diversify that economy. I understand that economic development will be the topic of another hearing before the Committee, so I will touch only briefly on approaches to developing diversification. Improvements in transportation and communication increasingly have made possible the dispersal of certain kinds of economic activity. It is possible to foresee the growth of a whole range of service and light manufacturing industries in rural communities. Rural workers, farmers in particular, are often easier to train and harder working than many of their urban and suburban counterparts. Because the cost of living is lower in rural areas, labor costs are also lower. These attributes of the rural workforce hold great potential waiting to be realized. Obvious examples of how this workforce can be tapped abound--credit card servicing functions, insurance claims handling, telemarketing, and a gamut of other service-oriented work could be introduced in rural communities. The expansion of non-agricultural employment in rural areas will have a generalized effect on the rural economy; a workforce of diversifying talents will itself become a magnet for diverse businesses to locate on rural mainstreet.

In sum, the condition of rural mainstreet today is not good, nor are the small firms located there optimistic about the future. Yet there remains great potential for growth in our rural communities, a potential that can be realized if we are prepared to effect changes in some of the basic policies that influence the rural economy. As always, hardship affords opportunity for reform.

SWA0197T

NFIB® QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

JANUARY 1985

RESEARCH & EDUCATION FOUNDATION

TABLE OF CONTENTS

SUMMARY OF RESULTS

by

William C. Dunkelberg
Purdue University

William J. Dennis, Jr.
NFIB Research and Education Foundation

A strong fourth quarter rounded out what probably has been small business's best year in over a decade. Moreover, small business owners anticipated early 1985 to be an improvement over late 1984. Their outlook was very positive, but there were two problems -- one potential and one very real.

The fourth quarter was strong -- not as strong as the first or second, nor arguably even as strong as what was for small business a strong third quarter -- but strong by any reasonable measure. Falling interest rates and improved credit conditions were the quarter's most notable features. Still, there was no truly outstanding characteristic. Employment in small business continued to rise (seasonally adjusted); capital investment drifted higher; inventory accumulations increased though net inventory satisfaction remained positive. The rate of price increase hovered in the same range as that experienced for the past several quarters, and the frequency of average employee compensation increases slid. Developments were not universally positive, however. The Index of Small Business Sales took a healthy drop from a very high level while the Index of Small Business Earnings moved lower from the survey record levels established earlier in the year. Yet, the latter developments could not be considered serious.

Nineteen eighty-five was anticipated to begin on the upward slope. Real GNP was expected to rise faster than most anticipate. Hiring plans were very strong. Both inventory accumulations and capital expenditures should provide stimulus. Sales were expected to rise sharply (seasonally adjusted). Clearly, small business was bullish moving into the new year. But two clouds were present. The percentage planning price increases moved sharply higher in January. In addition, the rural areas of the upper Midwest in particular neither shared in 1984's excellent performance nor were the owners of small businesses located there as optimistic about what they see.

Optimism

Small business optimism began to rise again in January after a lull in the latter part of the year. Thirty-seven percent anticipated better economic conditions over the next three to six months (Table 1); 8% expected them to get worse. While these figures were no match for the exuberant numbers posted one year ago, they must be considered very positive in light of the reasonably good conditions with which future conditions were compared.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS
OVER NEXT THREE TO SIX MONTHS
COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Much Better	4	4	6	3	2	3	4
Better	43	52	53	36	21	27	33
Same	33	32	33	45	50	50	50
Worse	9	6	3	9	17	11	7
Much Worse	3	1	*	1	2	1	1
Don't Know	7	5	4	5	7	8	4
No Answer	1	*	1	1	1	*	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

The outlook improved substantially between October and January in all industry classes except agriculture where the level actually declined from a relatively low base, and the professional services where it remained unchanged from a relatively high base (Table 2). Construction led the parade increasing by 25 percentage points the net percentage of those anticipating better conditions minus those anticipating worse conditions. Wholesale followed at 22 percentage points, consistent with reinvigorated inventory plans for all small firms. Manufacturing and the financial services also registered strong gains.

The problems in agriculture rippled into non-agricultural small businesses in the rural areas. The impact was particularly noticeable in the West North Central region where just seven percentage points more small firms expected better conditions in the next three to six months than expected worse conditions (Chart 1). The West North Central region includes the Dakotas, Iowa, Kansas, Minnesota, Missouri, and Nebraska. All other regions were considerably more positive. The oil-influenced West South Central region which has been struggling proved the most optimistic.

Table 2

NET VIEW OF GENERAL BUSINESS CONDITIONS
OVER THE NEXT THREE TO SIX MONTHS
BY INDUSTRY

INDUSTRY	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Construction	52*	29	-7	11	36
Manufacture	60	25	11	12	30
Transportation	63	24	-2	21	26
Wholesale	60	31	11	18	40
Retail	56	28	6	17	25
Agriculture	40	14	-4	15	5
Finance	54	28	-1	13	30
Service	53	28	8	25	36
Professions	61	36	1	28	28
All Firms	55	28	4	18	29

* Percent believing general economic conditions will get better over the next three to six months minus the percent believing they will get worse.

Twenty-two percent believed the next three months would provide a favorable climate for small business expansion (Table 3). That is three percentage points higher than October and July levels, but four to five lower than that recorded earlier in 1984. On balance, however, the 22% favorable report was strong. It was substantially above the historical median, and with the exceptions of the record-shattering January and April, 1984, performances, the highest level since April, 1978.

Table 3

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

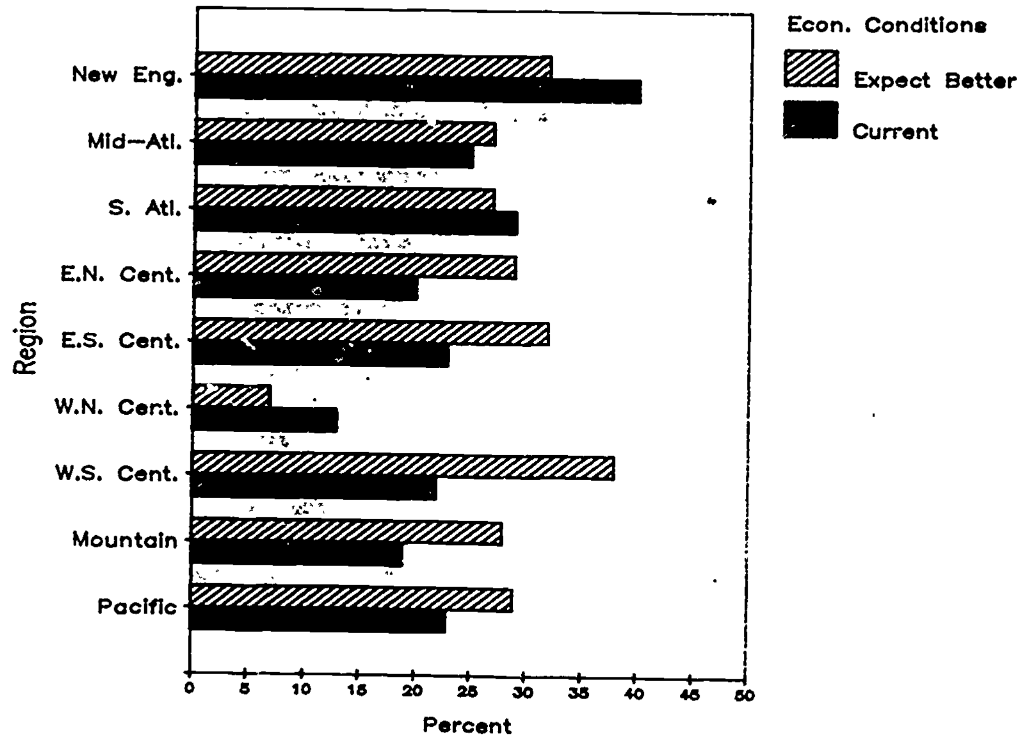
GOOD TIME TO EXPAND	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Yes	7	9	27	26	19	19	22
No	72	67	38	37	48	46	44
Uncertain	20	23	34	36	33	35	33
No Answer	1	1	1	1	*	*	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Again, there was a marked regional difference (Chart 1). The north central parts of the country including the mountain states least frequently contained reports of climates favorable for small business expansion. The West North Central region produced only 13%

Chart 1

SMALL BUSINESS OUTLOOK
BY REGION



of respondents with a positive view. In contrast was the eastern seaboard including New England. Forty percent of those in New England (a relatively small sample size) believed the business climate favorable for expansion while 29% of those in the South Atlantic region did.

Economic conditions and sales prospects were cited as the primary reason for optimism by over 75% of those who saw the next three months' climate as favorable (Chart 2). Seventeen percent attributed their positive view to financing conditions, doubling the number recorded in October. Those who believed the next three months not a good time for expansion offered the primary reasons for their views in practically the same proportions as were offered in October.

Optimism Index

The Index of Small Business Optimism rose sharply for the first quarter reaching one of its higher levels in the past few years. (The Index record high was established in January, 1984; the Index record low was established in April, 1980.) Without adjustment for net exports, the Index anticipated a GNP rise of 6.8% (annualized) for the next three month period (Chart 3). However, given the grim

Chart 2

REASONS FOR VIEWS ON THE CLIMATE FOR SMALL BUSINESS EXPANSION

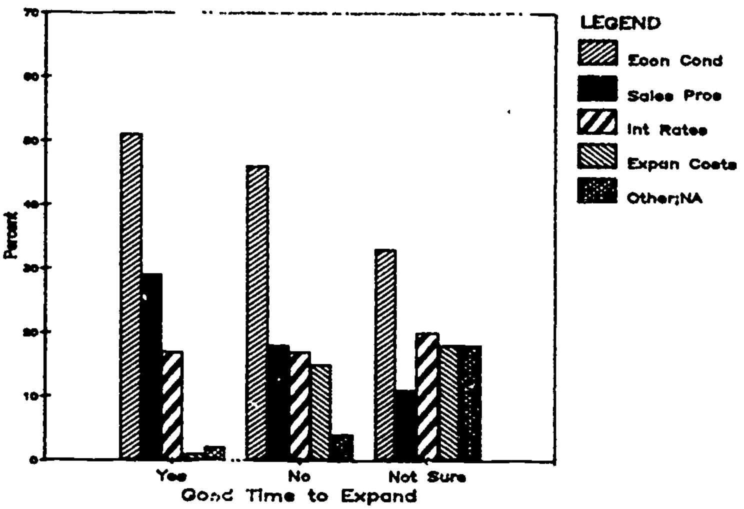
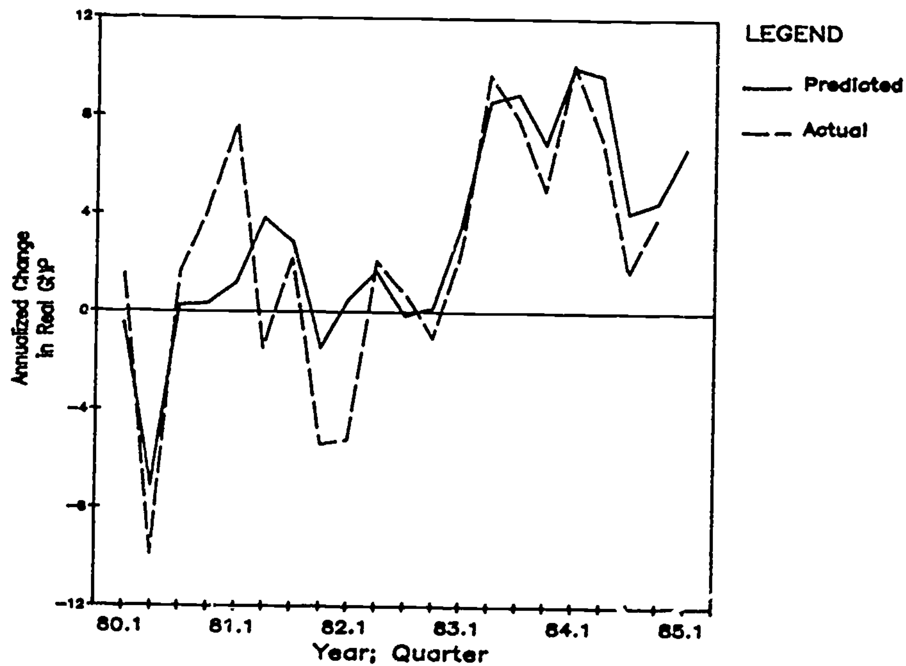


Chart 3

PREDICTED AND ACTUAL CHANGE IN REAL GNP



international trade picture (virtually the exclusive domain of larger firms), growth can reasonably be projected in the 5%-5.5% range. The projected real growth rate, while not as strong as it might be with a different international situation, remained very healthy.

Of the Index's three components, two -- General Expectations and Spending Plans -- moved sharply upward (Table 4). The third component, Current Status, slid. These shifts reflected slower growth in the last half of 1984 and the projected acceleration for early 1985.

The Index of Small Business Optimism has tracked subsequent real GNP growth quite well over the history of the survey. However, since mid-1981, it has proven uncannily accurate. Between April, 1981, and October, 1984, a 13 quarter period, only one directional change has been missed; all major directional changes

Table 4

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
General Expectations1/	92.0	102.0	119.0	116.3	97.8	101.0	108.0
Current Status2/	60.3	64.3	73.7	74.0	78.7	76.3	73.0
Spending Plans3/	91.7	94.7	102.0	103.7	93.7	93.7	100.7
Index	82.4	88.5	100.3	99.8	90.9	91.4	95.3
Index (1978-100)	90.7	97.4	110.3	109.8	99.9	100.6	104.8

* Index numbers
1/ Expected Business Conditions, Climate for Expansion, Expected Real Sales Volume, Expected Credit Conditions
2/ Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
3/ Plans to Hire, Make Capital Expenditures, Add to Inventories

and their general magnitude have been captured. Since late 1982, the Index's performance is, if anything, even better than for the entire period. Assuming this accuracy continues, 1985 will be off to a solid start.

Credit Conditions

Small business credit conditions eased during the fourth quarter (Tables 5 and 6). Interest rates paid on loans with maturity of 12 months or less averaged 13.7%, down 70 basis points from the prior quarter's average (Table 7). The small business premium for the quarter, therefore, amounted to about 220 basis points (Chart 4). A similar spread has been generally maintained for the last two years.

Table 5

AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

LOAN 1982 AVAILABILITY	1983 OCT	1984 OCT	JAN	1984 APR	JUL	1985 OCT	JAN
Easier	1	4	3	2	2	2	5
Same	28	28	28	28	30	29	31
Harder	9	6	6	7	9	7	7
Don't Know	2	2	1	2	1	2	1
Inapplicable (Don't Borrow; No Answer)	60	60	62	61	58	60	56
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 6

CURRENT INTEREST RATE COMPARED TO INTEREST RATE
IN PRIOR QUARTER

CREDIT EXPECTATIONS	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Easier	2	*	*	2	4	1	*
Same	5	1	6	18	31	16	3
Harder	11	7	26	17	7	17	14
Don't Know	20	28	5	2	1	4	25
Inapplicable (Don't Borrow)	1	3	*	*	*	1	1
No Answer	1	1	1	1	1	1	1
Total	60	60	62	60	58	60	56
	100%	100%	100%	100%	100%	100%	100%

Forty-six percent of firms reported borrowing during the period. That is a four percentage point rise from the previous quarter and helps break a six year generally downward trend in borrowing frequency. Wholesale firms reported greatest borrowing frequency (54%) and the services least (33%).

Forty-eight percent of borrowing firms reported their loans tied to the prime or some other variable measure (Table 7). Eleven

Chart 4

RECENT AVERAGE INTEREST RATES
PAID BY SMALL BUSINESS ON SHORT TERM LOANS

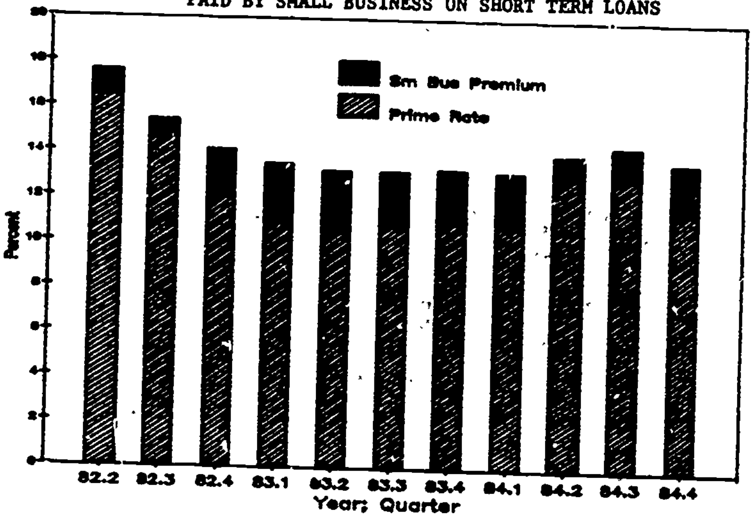


Table 7

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST RATE	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Under 13%		8	15	16	8	5	8
13%-15%		32	37	39	42	40	38
16%-18%		20	7	5	4	8	6
19%-22%	N.A.	2	1	*	3	1	*
23% or More		*	*	*	*	*	*
Prime +1#		23	22	21	22	26	25
Prime +2		13	14	15	18	16	21
Prime +3 or More		2	4	4	3	4	2
Total		100%	100%	100%	100%	100%	100%
AVERAGE RATE		13.4%	14.1%	13.2%	14.0%	14.4%	13.7%

*Less than 0.5% N.A. Not Available
#"Prime +____" response added in 1982

quarters ago, just 32% reported variable rates. In fact, as these data indicate, one of the great changes small business owners have recently encountered in the financial markets is the relatively sudden shift from fixed to variable market rates of interest.

On balance, small business owners believed credit conditions will ease over the next three months (Table 8). While expectations of "harder" credit conditions have almost always outnumbered expectations of "easier" credit conditions, the relatively small four percentage point margin ("easier" minus "harder") was one of the more positive evaluations the survey has produced. A stretch running from October, 1982 - July, 1983, most recently provided similar results.

Employment

Employment growth in the small business sector slowed during the fourth quarter. Fourteen percent increased employment and 14 percent decreased employment (Table 9). Those figures were identical to the figures posted one year ago even though modest differences existed in

Table 8

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Easier	2	4	3	2	2	2	5
Same	23	25	25	24	26	26	29
Harder	11	7	7	9	12	8	9
Don't Know	4	4	3	4	4	4	1
Inapplicable (Don't Borrow; No Answer)	60	60	62	61	58	60	56
Total	100%	100%	100%	100%	100%	100%	100%

the average number of employees per firm affected. The employment strength remained in the service sectors. All three (financial, non-professional, and professional) on average added to their payrolls. However, all other sectors including retail experienced a net loss.

January's current job openings were modestly lower than those reported in October. That shift represented a typical seasonal pattern. Fifteen percent reported at least one job opening compared to 17% just three months ago (Table 10). However, January, 1985, openings were one percentage point higher than January, 1983's.

The principal demand for employees remained those with skills. Again, that is typical. Few employers have current job openings for

Table 9

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Increased	9	10	14	16	22	18	14
Seasonal	2	3	4	5	11	6	4
Nonseasonal	7	7	10	11	11	12	10
Decreased	23	18	14	11	10	11	14
Seasonal	8	6	7	6	2	4	7
Nonseasonal	15	12	7	5	8	7	7
No Change	67	71	69	71	67	70	70
No Answer	1	1	3	2	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.2	3.3	3.7	3.8	3.7	4.2	3.2
Employees decreased per firm decreasing	4.7	4.6	4.8	4.3	3.2	2.9	4.0
Average net change per all firms	-.79	-.47	.09	+.16	+.46	+.43	-.09

Table 10

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Yes	11	9	13	14	16	17	15
Skilled Labor	9	7	10	10	12	12	12
Unskilled Labor	1	1	1	2	2	2	2
Both	1	1	2	2	2	3	1
No	88	89	85	84	82	82	83
No Answer	1	2	2	2	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%

those without skills, in part because unskilled positions can be filled more rapidly and with lower search costs.

Employment plans remained positive, indicating that the number of new jobs will continue to rise at a 3%-4% rate (annualized).

Table 11

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Increase	14	14	18	24	15	14	18
Keep the Same	74	76	73	69	75	74	73
Decrease	10	8	7	5	9	11	8
No Answer	2	2	2	2	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Eighteen percent planned increases, up four percentage points from October and identical to the January, 1984, level (Table 11). Eight percent planned declines, down three percentage points from October and one higher than one year ago.

The planned increases were broadly based. Only retail and agriculture had fewer than 10 percentage points more firms planning increases than planning decreases. The professional service sector had the greatest spread -- 22% planning increases and less than half of 1% planning decreases.

Inventories

Small business drew down inventories during the fourth quarter, a normal development. Three percentage points fewer firms increased net inventories than decreased them (Table 12). That margin was identical to the margin recorded just one year ago, and a substantial improvement from the 15 percentage point margin registered in January, 1983.

Table 12

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Increase		13	18	23	25	22	20
Same		40	43	42	40	44	37
Decrease	N.A.	28	21	15	16	15	23
Not Applicable		18	16	17	18	17	18
No Answer		1	2	3	1	2	2
Total		100%	100%	100%	100%	100%	100%

N.A. Not available

Over half (51%) of firms experiencing net inventory accumulations found the increases to be no more than 10%. Another 31% of respondents reported them to be between 11%-20%. The size of decreases were somewhat larger on balance than were increases. Just 38% reported decreases of less than 10% and another 35% reported them between 11%-20%. Thus, the net percentage of firms reducing inventories understates the degree to which inventories declined.

The modest decumulation of inventories left more small business owners feeling inventory levels too high than too low (Table 13). But, the difference betwen the two figures was only two percentage points. Seasonally adjusting the data placed January's inventory satisfaction level in the more favorable half of those recorded during the survey's 12-year history. Thus, on balance, the inventory position of small firms appeared reasonably good.

Table 13

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Too Large	16	13	11	10	12	13	12
About Right	54	55	55	57	56	56	55
Too Low	10	11	12	11	11	10	10
Not Applicable	17	16	17	17	19	19	20
No Answer	3	5	5	5	2	2	3
Total	100%	100%	100%	100%	100%	100%	100%

An important part of the economy's projected first quarter strength was based on planned inventories. With inventory satisfaction levels favorable and strong sales anticipated, inventory investment plans moved sharply higher on a seasonally adjusted basis (Chart 5). January's data represented the second consecutive increase following the one quarter precipate decline experienced earlier in the year.

Twenty-two percent planned net inventory increases compared to 12% who planned net inventory decreases (Table 14). A net 10 percentage point margin was the result of positive inventory plans in every sector. Significantly, the most positive plans were among inventory-intensive industries. The wholesale (+ 15 percent points) and retail (+ 13 percentage points) industries contributed substantially with the inventory-light professional service (+ 2 percentage points) and financial service (+ 6 percentage points) industries contributing modestly. But it was the construction industry which planned the greatest net increase (+ 16 percentage points); those plans represented a healthy 10 percentage point jump from one year ago and a 22 percentage point jump from January, 1982.

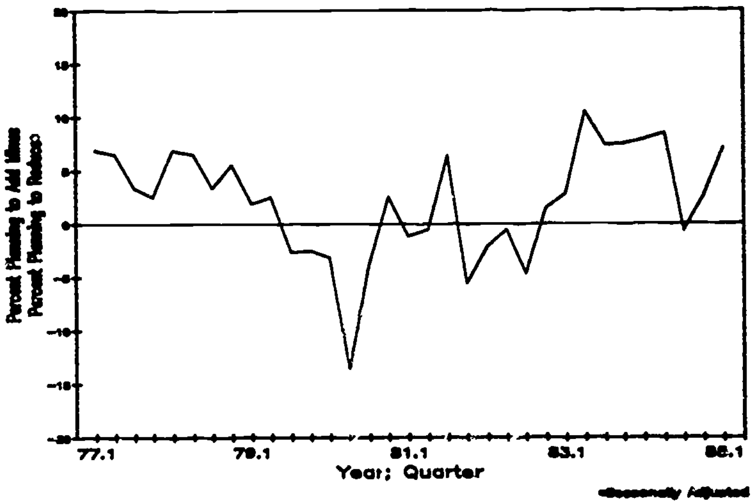
Table 14

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Add	18	19	24	21	15	16	22
No Change	46	49	43	46	47	45	44
Decrease	16	12	12	12	16	18	12
Not Applicable	16	14	14	14	18	17	19
No Answer	4	6	7	6	4	4	3
Total	100%	100%	100%	100%	100%	100%	100%

Chart 5

PLANNED INVENTORY CHANGE



Capital Expenditures

The position of firms making at least one capital outlay in the last three to six months rose to 58%, the highest figure since January 1980's report for the latter half of 1979 (Table 15). Expenditures on equipment and vehicles contiued to dominate. Forty-six percent reported such expenditures with 17% reporting

Table 15

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
All Types+	53%	50%	56%	52%	55%	57%	58%
Equipment/ Vehicles	43	40	46	42	45	46	46
Add Buildings	8	6	7	6	7	7	8
Improved Buildings	17	15	16	14	15	17	17
Land	4	3	4	4	4	4	4

+Percent of firms making one or more capital expenditures

expenditures for improved (renovated, remodeled, repaired) buildings, 8% for new buildings and 4% for land. Not only did the number of expenditures rise, so did their relative size. Thirty-nine percent of outlays reported in January amounted to more than $20,000, a two percentage point increase from October and a four, six, and two percentage point increase from each of the past three January figures (Table 16). Thus, when combining the increasing frequency of capital outlays and the increasing size of those outlays, it appears evident that smaller firms were making a solid contribution to the economic stimulus provided by increasing capital expenditures.

Table 16

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Under $1	6	8	8	6	6	7	7
$1 - 4	21	22	20	19	20	19	18
$5 - 9	18	16	15	16	15	14	14
$10 - 19	17	19	21	23	21	21	21
$20 - 49	17	14	16	17	16	16	17
$50 - 99	10	8	9	9	10	9	10
$100 - 499	8	9	8	7	11	9	10
$500 - 999	1	1	1	1	2	2	1
$1,000 or More	1	1	1	1	1	1	1
No Answer	1	2	1	1	*	2	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Plans to make capital expenditures rose to 34% in January after demonstrating some minor weakness in mid-1984 (Table 17). Within the last seven years, only the performance one year ago (35%) surpassed the current figure. These data provide further evidence, should more be necessary, that capital spending will continue well into the year.

Table 17

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Yes	27	29	35	34	31	33	34
No	59	58	51	51	55	53	52
Don't Know	13	10	10	12	12	11	11
No Answer	1	3	4	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%

There appears to be a subtle change in financing these expenditures. Since the recovery, earnings have been strong and the frequency of borrowing on the decline. The obvious implication is that small firms have relied heavily on earnings to finance their capital outlays. However, within the past three quarters, there have been two sharp upticks in percentage of firms classifying themselves as regular borrowers, and within the past two quarters a decline in the Earnings Index. Allowing for the influence of variation in the interest rates, it would appear that small business financing of capital outlays has begun to shift away from earnings and toward borrowing

Prices

The ominous news in the January survey data was prices. While the rate of increase in small business prices during the fourth quarter remained consistent with price performance over the past several quarters, a sharply higher percentage planned price increases during the first three months of the year. And, as is evident from Chart 6, small business owners as a group generally follow through on plans to increase prices.

Fourth quarter small business price developments were favorable toward maintenance of relative price stability. Twenty-one percent reported price increases (Table 18), an amount which has, with one exception, remained remarkably consistent over the past nine quarters. More than half of those increases were less than 5%. Fourteen percent reported price decrease. January data represented the fourteenth consecutive quarter that the percent reporting price decreases fell within the double-digit range. Agriculture, whole-

Table 18

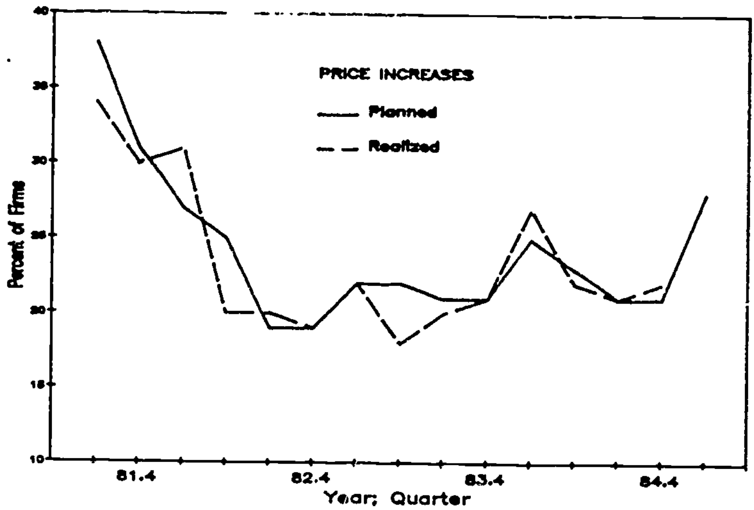
CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Lower Now	14	18	11	10	12	12	13
No Difference	52	61	65	60	63	65	63
Higher Now	31	19	21	27	22	21	22
Less than 1%	1	*	*	1	1	1	1
1.0-1.9%	3	2	3	4	3	4	2
2.0-2.9%	3	3	3	3	3	3	3
3.0-3.9%	4	2	3	3	2	3	3
4.0-4.9%	4	3	3	3	3	2	2
5.0-7.9%	8	5	4	7	5	4	4
8.0-9.9%	3	1	1	2	1	1	1
10% or More	3	2	3	3	3	2	3
No Answer	2	1	1	1	*	1	3
No Answer	3	2	3	3	3	2	2
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Chart 6

PLANNED AND REALIZED PRICE INCREASES



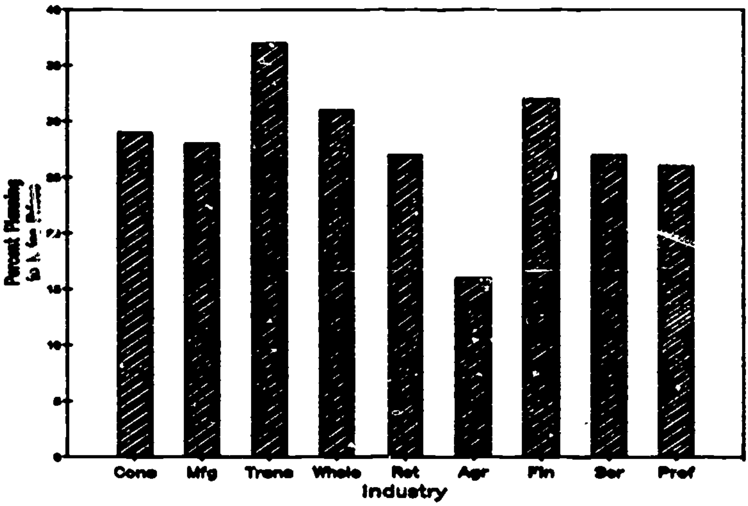
sale, retail, and transportation firms reported price declines with greatest frequency; professional service firms reported them with the least frequency.

The percentage planning price increases leaped to 28% (Table 19). Although the 28% figure is a far cry from the survey record 46% produced in April, 1980, it represented a seven percentage point increase from October and the highest number since April, 1982. Over half the increases were projected at less than 5%.

Plans to raise prices were registered across the board. With the exception of agriculture, at least one of four small business owners in every sector had such plans (Chart 7). Transportation, financial services, and wholesale reported price increase plans with the greatest frequency. In those three industries, as well as construction, the frequency of planned price increases was more than 10 percentage points higher than reported in October.

Chart 7

PLANS TO RAISE PRICES BY INDUSTRY



Data from other points in the survey with the exception of planned compensation increases give little indication of any pending inflation problem, however. For example, the number citing inflation as their single most important problem was lodged at a survey record low (Table 27), and those citing price increases (material, wages, or financing costs) as the most important cause of lower earnings (Chart 9) was virtually unchanged from the previous several quarters.

A cyclical rise in inflation after two years of economic growth is not unusual. Normally, it would not present any cause for concern. However, our recent experience with double-digit inflation and the continuing downward pressure on prices created by the strong American dollar should remind us that inflation is not dead -- it is just in remission.

Table 19

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1982 JAN	1983 JAN	1984 JAN	1984 APR	1984 JUL	1984 OCT	1985 JAN
Lower	N.A.	5	3	3	4	3	4
No Change	48	55	53	57	58	59	54
Increase	31	22	25	23	21	21	28
Less than 1%	1	*	*	1	1	1	1
1.0-1.9%	2	2	3	2	3	2	3
2.0-2.9%	3	2	3	3	3	3	4
3.0-3.9%	4	2	4	4	3	2	3
4.0-4.9%	4	4	4	3	2	3	3
5.0-7.9%	9	6	7	6	5	5	7
8.0-9.9%	2	1	1	1	1	1	1
10% or More	4	3	2	2	3	3	3
Don't Know	2	2	1	1	*	2	3
Don't Know	15	15	15	14	14	14	12
No Answer	6	3	4	3	3	3	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%
N.A. Not Available

Compensation

The number of small firms raising average compensation slid to 21% in the fourth quarter; 2% reported average compensation increases (Table 20). It was loweat frequency of average compensation increase since the series was reinstituted earlier in the year. Two-thirds of all increasea amounted to 6% or less, about the same proportion recorded throughout the earlier part of the year.

Twenty-four percent planned average compensation increases, a rise of six percentage points since October (Table 21). Intuitively, it would be expected that the first quarter figure should be higher than those of other quarters; pay increases for tenured employees generally occur at the beginning of the year. However,

Table 20

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	APR 1984	JUL 1984	OCT 1984	JAN 1985
Increased	26	25	23	21
1-2%	3	3	2	2
3-4%	7	6	6	5
5-6%	8	7	8	7
7-8%	4	4	3	3
9-10%	3	2	2	2
over 10%	*	*	*	2
no answer	1	3	2	*
Same	66	66	71	73
Decreased	1	1	1	2
No Answer	7	8	6	4
Total	100%	100%	100%	100%

* Less that 0.5%

such was not the case for the only comparable period for which we have data prior to the current one. Between October, 1974, and January, 1975, the percent planning average compensation fell five percentage points (Table 21). The importance of these data lie in the relationship between price increases and compensation increases. The percent of firms raising prices approximates the percent of firms providing average compensation increases (Chart 8). If there is a normal seasonality in small business compensation increases (the first quarter), then the

Table 21

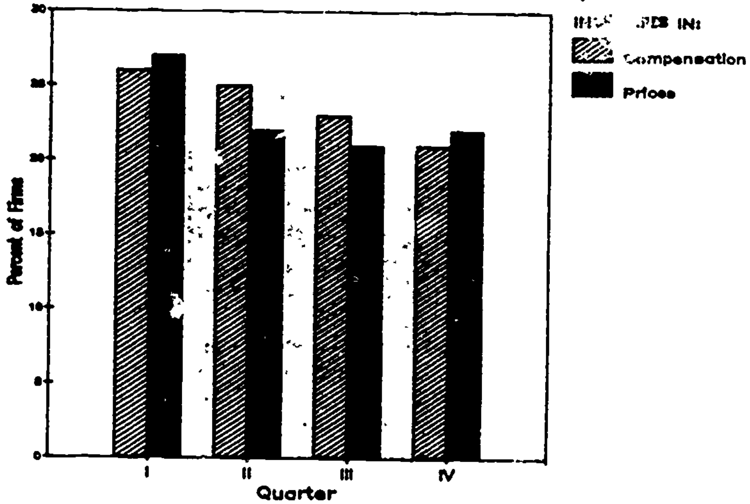
PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION CHANGE	APR 1974	JUL 1974	OCT 1974	JAN 1975	APR 1984	JUL 1984	OCT 1984	JAN 1985
Increase	43	37	33	28	21	18	18	24
1-2%	3	3	3	2	1	[illegible]	[illegible]	1
3-4%	7	6	5	5	6	[illegible]	[illegible]	7
5-6%	31+	28+	25+	20+	8	7	7	9
7-8%					2	2	2	2
9-10%					2	1	1	2
over 10%					1	1	1	1
don't know	N.A.	N.A.	N.A.	N.A.	1	*	*	*
no answer	2	1	*	1	*	1	1	2
Same	50	57	62	66	63	67	68	62
Decrease	N.A.	N.A.	N.A.	N.A.	1	1	1	2
Don't Know	N.A.	N.A.	N.A.	N.A.	11	8	10	9
No Answer	7	6	5	6	4	6	3	3
	100%	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%   N.A. Not Asked
+ All responses of 5% or more

Chart 8

SMALL BUSINESSES INCREASING AVERAGE EMPLOYEE
COMPENSATION AND SELLING PRICES BY QUARTER



rise in first quarter price expectations may not be as serious as it first appears.

Sales

Sales, as quantified by the Index of Small Business Sales, dropped in the fourth quarter (Chart 9). In fact, the Index stood at its lowest point since the first quarter, 1983. The almost 25% topple in the Index over the past two quarters can be attributed to both slower sales and the comparative nature of the sales measure. Even a reasonably strong performance contrasted to the spectacular first half might prove embarassing. Still, more small firms continued to report higher sales compared to the previous quarter than reported lower sales compared to the previous quarter (Table 22). Forty-three percent of small business owners indicated no sales volume change between the third and fourth quarters -- not bad considering the strong performance exhibited earlier in this year. Moreover, over 50% of those with a volume change (higher or lower) reported the change to be less than 15% (Table 23). Thus, while sales were weaker in the last few months of the year, they were weaker only in comparison to an exceptional fourth quarter, 1983.

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Chart 9

INDICES OF SMALL BUSINESS
SALES AND EARNINGS

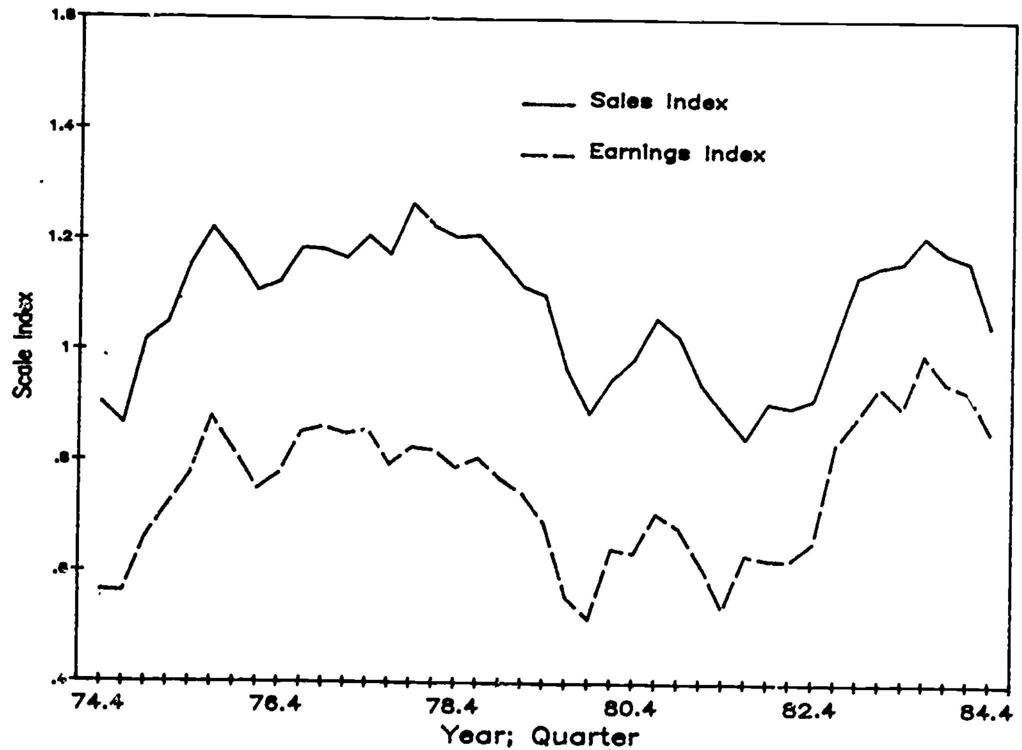


Table 22

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

DOLLAR SALES VOLUME	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Much Higher	3	3	4	5	5	4	4
Higher	23	23	33	30	40	34	27
About the Same	37	39	38	37	36	41	39
Lower	28	28	20	22	16	18	25
Much Lower	7	6	4	5	2	2	4
No Answer	2	1	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

The sales outlook for the first quarter improved sharply. Half (50%) of the respondents anticipated higher sales in the next three months in contrast to just 21% with the opposing view (Table 24). While sales forecasts are normally on the optimistic side in absolute terms, a comparison between the January, 1985, data and the data from comparable periods in 1982 and 1983 indicates that a period of very strong growth is to be expected.

Table 23

PERCENT SALES CHANGE BY HIGHER SALES AND LOWER SALES

PERCENT SALES CHANGE	Higher Sales	Lower Sales
5% or less	12%	11%
6%-10%	29	28
11%-15%	17	19
16%-20%	12	13
21%-25%	11	12
26%-35%	7	7
36%-50%	6	4
51% or more	4	3
No Answer	3	4
Total	100%	100%

Earnings

The Index of Small Earnings (Chart 9) moved lower in January. It was the second downward movement in as many quarters. Still, the Index remained at a relatively high level. In only one year (1984) out of the past decade has the January, 1985, Index been surpassed during a comparable period, and only twice has it been equalled (1984 and 1978). Thus, the earnings measure has recently held up better than the sales measure following a decade of parallel movement.

Twenty-two percent reported higher earnings; 33% reported lower earnings (Table 25). Only one time have more reported higher earnigs than lower earnings. Over 70% of both those with increased and decreased earnings reported at less than 20% (Table 26).

Table 24

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Go Up A Lot	6	5	9	13	7	8	8
Go Up A Little	31	39	45	51	39	37	42
Stay the Same	27	26	24	22	30	26	25
Go Down a Little	22	20	13	8	17	20	16
Go Down a Lot	8	5	4	2	3	5	5
Don't Know	4	5	4	3	3	3	3
No Answer	1	*	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 25

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1982 JAN	1983 JAN	1984 JAN	APR	1984 JUL	OCT	1985 JAN
Much Higher	1	1	2	2	3	2	2
Higher	13	16	23	22	26	23	20
Same	34	39	42	41	43	46	43
Lower	40	33	26	27	23	24	29
Much Lower	10	9	5	6	3	4	4
No Answer	2	2	2	2	2	1	2
Total	100%	100%	100%	100%	100%	100%	100%

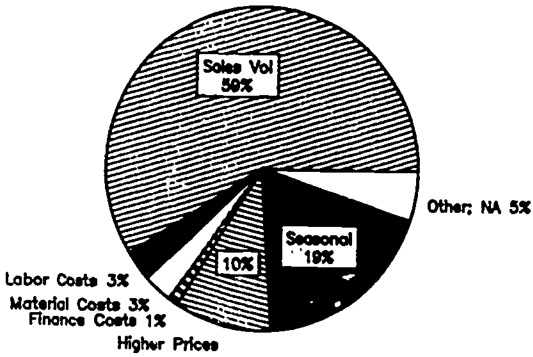
Sales volume (59%), seasonality (19%), or higher prices (10%) were cited by almost 90% of those with increased earnings as the most important reason for the positive earnings change (Chart 10). On the negative side, the same three factors accounted for no indication.

Single Most Important Problem

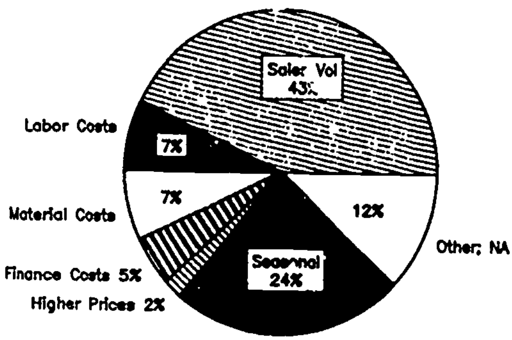
No single problem preoccupied small business owners during early 1985. "Taxes" and "Interest Rates - Financing" were cited more frequently than was any other, but each was only designated by 20% of respondents (Table 27). Diversity of concern was further demonstrated by the fact that three other problems -- "Competition from Large Business," "Government Regulations/Red Tape," and "Quality of Labor" -- were noted with double-digit frequency.

Chart 10

REASONS FOR EARNINGS CHANGES



Higher



Lower

Table 26

PERCENT EARNINGS CHANGE BY HIGHER SALES AND LOWER SALES

PERCENT EARNINGS CHANGE	Higher Earnings	Lower Earnings
5% or less	16%	13%
6%-10%	31	26
11%-15%	15	20
16%-20%	11	12
21%-25%	8	10
26%-35%	5	6
36%-50%	5	5
51% or more	6	4
No Answer	3	4
Total	100%	100%

Change from October's evaluation of the single most most important problem reflected for the most part change in economic conditions during the intervening period. Interest rates fell; "Interest Rates - Financing" as the single most important problem of small business fell four percentage points. Employment rose; "Quality of Labor" as the single most important problem rose four percentage points. "Government Regulation/Red Tape" was the third problem which changed at least four percentage points from October although there appeared no immediate reason for the increase.

Table 27

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEM	Prior High Date	%	Prior Low Date	%	APR Rank	%	JUL Rank	%	1984 OCT Rank	%	1985 JAN Rank	%
Taxes	7/83+	22	10/74	8	1	21	2	19	2	19	1	20
Inflation	10/74	41	10/84	4	6	7	7	5	8	4	8	4
Poor Sales	10/82	23	1/75+	1	3	14	3	12	3	12	4	12
Interest Rates & Financing	4/82+	37	7/77	4	2	18	1	26	1	24	1	20
Cost of Labor	7/77	9	7/82	2	7	6	7	5	7	5	7	5
Government Regulations(s)/ Red Tape	4/76	16	7/82+	4	5	9	5	9	5	9	3	13
Competition from Large Business	10/76	13	4/80+	4	4	10	4	11	3	12	5	11
Quality of Labor	4/74+	10	1/83+	3	7	6	6	6	6	7	6	6
Shortage of Fuels, Materials, Goods	1/74	23	7/84+	*	9	*		*	9	1	9	1
Other; No Answer	-	-	-	-	-	9	-	7	-	7	-	8
Total						100%		100%		100%		100%

* Less than 0.5%
+ Most recent

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APPENDIX A

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

Construction	Construction (Building contractors—general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction; etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances auto dealer, etc.)
Agriculture	Agriculture, veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D C)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
SALES OF FIRM BY INDUSTRY

SALES OF FIRM[b]	INDUSTRY[a]									ALL FIRMS[c]—JAN 1985
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Less than [illegible]	5	4	4	2	6	15	8	22	8	8
[illegible]	9	11	5	3	10	12	10	17	27	11
[illegible]	14	13	21	5	16	15	11	20	24	15
[illegible]	15	6	23	7	19	20	16	16	14	15
[illegible]	21	17	12	19	22	16	20	13	16	19
[illegible]	14	19	14	23	12	15	10	5	5	13
[illegible]	9	13	15	17	7	3	8	2	4	8
[illegible] or More	12	15	6	22	6	2	13	2	2	9
Not Ascertained	2	1	*	2	2	2	4	3	*	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	25,	264	52	165	596	95	172	233	115	1945
Percent of Firms	13	14	2	8	31	5	9	12	6	

[a] See Table A-1 for detailed description of the classifications.
[b] Quarter sales, at annual rates.
[c] Includes firms for which no industrial classification was ascertained.
* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

NUMBER OF EMPLOYEES	INDUSTRY									ALL FIRMS[a]—JAN 1985
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
1	5	2	4	2	7	12	9	13	5	7
2	5	4	2	4	9	14	14	14	15	9
3–5	27	16	35	23	33	33	37	37	37	30
6–9	22	17	15	22	21	20	15	19	18	19
10–14	12	15	12	17	12	8	8	6	10	11
15–19	8	6	*	10	6	3	5	3	4	6
20–39	13	18	14	12	6	4	6	5	3	9
40 or More	8	22	17	10	7	3	7	3	7	9
No Answer	*	*	1	*	*	3	*	*	1	*
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	249	256	52	157	589	120	172	229	115	1945

[a] Includes firms for which no industrial classification was ascertained.
* Less than 0.5%

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks

1 What is your form of business organization?
[1] Proprietorship [2] Partnership [3] Corporation 1

2 Please classify your major business activity, using one of the categories of examples below (If more than one applies, circle the one which contributes the most toward your gross sales or total revenues)
[1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, etc.)
[2] Manufacturing and mining (including dairy processor, printer, publisher, etc)
[3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
[4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., etc) 2
[5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, etc)
[6] Agriculture, veterinarian, forestry, landscaping, fisheries, etc
[7] Financial, insurance, real estate, bank, savings & loan, etc.
[8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, etc.
[9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, etc
[10] Other (please describe) ____________

3 What is the single most important problem facing your business today? (Please circle only ONE of the following):
[1] Taxes [4] Interest rates & financing [8] Quality of labor 3
[2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods
[3] Poor Sales [6] Government regulation(s) & red tape [0] Other ____________
[7] Competition from large businesses (please explain)

4 Do you think the *next three months* will be a good time for small business to expand substantially?
[1] Yes [2] No [3] Uncertain 4

4a Why? (Circle ONE answer—*most important reason*)
[1] Economic conditions [3] Financing & interest rates [5] Other ____________ 5
[2] Sales prospects [4] Cost of expansion (please explain)

5 About the economy in general, do you think that *six months from now* general business conditions will be better than they are now, about the same or worse?
[1] Much better [3] About the same [5] Much worse 6
[2] Somewhat better [4] Somewhat worse [6] Don't know

6 During the last 3 months or calendar quarter, what were your gross sales, or revenues?
[1] Under $12 500 [3] $25 000-49 999 [5] $87,500-199 999 [7] $375,000-749,999 7
[2] $12 500-24 999 [4] $50 000-87,499 [6] $200 000-374 999 [8] $750 000 or more

6a During the *last calendar quarter*, was your dollar sales volume higher, lower, or about the same as it was *for the quarter before*?
[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

6b If higher or lower, by approximately what percentage?
[1] Less than 6% [3] 11%—15% [5] 21%—25% [7] 36%—50% 9
[2] 6%-10% [4] 16%—20% [6] 26%—35% [8] 51% or more

7 Were your net earnings or "income" (after taxes) from your business during the *last calendar quarter* higher, lower or about the same as they were *for the quarter before*?
[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

7a If higher or lower, by approximately what percentage?
[1] Less than 6% [3] 11%—15% [5] 21%—25% [7] 36%—50% 11
[2] 6% 10% [4] 16%—20% [6] 26%—35% [8] 51% or more

7b. If higher or lower, what is the most important reason? (Circle only ONE)

1 Sales volume 4 Availability of materials 6 Financing costs 12
2 Labor costs 5 Received higher prices for your product or service 7 Usual seasonal change
3 Cost of materials 8 Other ________ (Specify)

8 Overall, what do you expect to happen to the real volume (number of units) of goods and/or services that you will sell during the *next three months*?

1 Go up a lot 3 Stay the same 5 Go down a lot 13
2 Go up a little 4 Go down a little 6 Don't know

9 How are your average selling prices now compared to three months ago?

1 Lower now 2 No difference 3 Higher now 4 Don't know 14

9a. If higher or lower, by what percent, on an average?

1 Less than 1% 3 2.0-2.9% 5 4.0-4.9% 7 8.0-9.9% 9 Don't know 15
2 1.0-1.9% 4 3.0-3.9% 6 5.0-7.9% 8 10% or more

10 In the *next three months*, do you plan to *change* the average selling prices of your goods and/or services?

1 Yes, raise prices 2 Yes, lower prices 3 No change 4 Don't know 16

10a. If raise or lower, by what percent, *on average*?

1 Less than 1% 3 2.0-2.9% 5 4.0-4.9% 7 8.0-9.9% 9 Don't know 17
2 1.0-1.9% 4 3.0-3.9% 6 5.0-7.9% 8 10% or more

11 How many employees do you have full and part-time *including yourself*?

1 One 3 3-5 5 10-14 7 20-39 18
2 Two 4 6-9 6 15-19 8 40 or more

12 During the *last three months*, did the *total* number of employees in your firm increase, decrease, or stay about the same?

1 Increased by ____ employee(s) 2 Decreased by ____ employee(s) 3 Stayed the same 19-21

12a. If the *total number* of employees increased or decreased, was this change due primarily to *seasonal factors* affecting your business?

1 Yes 2 No 22

13 In the *next three months*, do you expect to increase or decrease the total number of people working for you?

1 Increase 2 Keep the same 3 Decrease 23

14 Do you have any job openings that you are *not* able to fill right now?

1 Yes, for skilled labor 3 Yes, both skilled and unskilled labor 24
2 Yes, for unskilled labor 4 No

14a. If you have any openings, about how long have these jobs been available? (Circle ONE category which best describes your overall situation)

1 Less than one month 3 Three months, but less than six months 25
2 One months, but less than three months 4 Six months or more

15 During the last three months, did you increase or decrease your inventories?

1 Increase 2 About the same 3 Decrease 4 Not appropriate 26

15a. If increase or decrease, by approximately what percent?

1 Less than 6% 3 11%—15% 5 21%—25% 7 36%—50% 27
2 6%-10% 4 16%—20% 6 26%—35% 8 51% or more

16 At the present time, do you feel your inventories are too large, about right, or inadequate?

1 Too large 2 About right 3 Too low 4 Not appropriate 28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

1 Add 2 Keep the same 3 Decrease 4 Not appropriate 29

(See next page)

17 If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid *three months ago*?
[1] Much higher [3] Same [5] Much lower [7] Inapplicable do not borrow regularly 33
[2] Higher [4] Lower [6] Don't know

17a Are these loans easier or harder to get than they were *three months ago*?
[1] Easier [2] Same [3] Harder [4] Don't know 31

17b Do you expect to find it easier or harder to obtain your required financing during the *next three months*?
[1] Easier [2] Same [3] Harder [4] Don't know 32

18 If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? ______________ % or Prime + ______________ 33 35

19 During *the last 6 months* has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles: [1] Yes 36
Additional Buildings: [1] Yes 37
Improved Buildings: [1] Yes 38
Additional Land: [1] Yes 39

19a *If yes,* what was *the total* cost of these projects (i.e. total purchase price)?
[1] under $1 000 [4] $10 000-19,999 [7] $100 000-499,999 40
[2] $1,000-4,999 [5] $20,000-49 999 [8] $500,000 999,999
[3] $5 000 9 999 [6] $50,000-99,999 [9] $1 million or more

20 Looking ahead to the next three to six months do you expect to make any capital expenditures for plant and/or physical equipment?
[1] Yes [2] No [3] Don't know 41

21 Do you plan to change average employee compensation (wages and benefits but NOT Social Security, U C taxes, etc.) during the next three months?
[1] Increase [2] Keep the Same [3] Decrease [4] Don't Know 42

21a If Increase or Decrease, by what percentage on average?
[1] 1-2% [3] 5-6% [5] 9-10% [7] Don't Know 43
[2] 3-4% [4] 7-8% [6] Over 10%

22 Over the past three months, did you increase average employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?
[1] Increased [2] Kept the Same [3] Decreased 44

22a If Increased or Decreased, by what percentage on average?
[1] 1-2% [3] 5-6% [5] 9-10% 45
[2] 3-4% [4] 7-8% [6] Over 10%

23 Please indicate the geographical area that best describes the community in which your business is located:
[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)

Senator ABDNOR. Thank you, Mr. Motley, for a very fine statement and I'll be anxiously awaiting your survey when you have that completed. While you were testifying, our fourth witness has entered the room, Stuart Hardy, of the U.S. Chamber.

Would you mind coming to the front? I think they left a chair for you there, Mr. Hardy. We just took off and started without you.

Our next witness, one whom I'm very, very pleased to have, Mr. Bob Miller, who is from the South Dakota Municipal League and the National League of Cities.

Bob, we thank you for coming all the way in because we know you have a great contribution to make to this subcommittee. Go right ahead.

STATEMENT OF ROBERT H. MILLER, EXECUTIVE DIRECTOR, SOUTH DAKOTA MUNICIPAL LEAGUE

Mr. MILLER. Thank you, Senator Abdnor. I have been the executive director of the South Dakota Municipal League for the past 8 years. I am appearing here today as the director of the oldest, largest and most representative local government organization in the State of South Dakota. Our membership includes 309 cities and towns. All but 13 of them are less than 5,000 in population. In fact, 189 of our members are less than 500 in population. Regardless of size, all municipalities in South Dakota are required to furnish the same basic group of services.

The population of South Dakota and all rural States is changing. In the past 10 years, the percent of our population over 65 years old has increased 13 percent. Sixty-five of our 67 counties have lost population in the past 10 years. In essence, what we have is a declining population that is predominantly older or very young, requiring services that are mostly paid for by an agricultural-based economy that is in poor condition.

Many of South Dakota's cities, because of their geographic location and their dependence on agri-business in the surrounding counties face the consequences of a decline in the value of property and, therefore, a decrease in revenue that will be produced from tax levies.

On many of our rural South Dakota Main Streets, there are vacant buildings. Taxes are not being paid on these properties simply because the income from agri-business is not available. The streets and sidewalks fronting these buildings need maintenance even though the vacant buildings no longer contribute their share to the city budget. Consequently, all of our cities suffer because of a lack of taxable property.

In South Dakota, we lose one Main Street business for every five farms that are lost or consolidated. As we lose farms, we lose Main Streets because farmers are large consumers of goods and services sold on Main Street. Those remaining on the farms are then forced to travel even greater distances to make required purchases, thus further hurting themselves and those remaining on Main Street.

Store closings on Main Street are nothing new. We have always had stores going out-of-business in our free market system. What is new, however, is that today there is no one waiting to go into vacant buildings with a new business. Today, when a Main Street building becomes vacant, it stays vacant.

South Dakota has suffered greatly in the last few years because of the effects of the agriculture crisis. The effects of the agriculture situation are felt, not only by our farmers and their leaders, but also by every business on Main Street. The slowdown in the economy has caused lower sales by nearly all businesses in South Dakota. The resulting effect on local governments has been a reduction of sales tax receipts and a much higher delinquency rate of property taxes.

This is a problem that will continue for rural America as long as the farm problem exists. How can you make municipal improvements when taxes or assessments against abandoned property cannot be collected? As more and more properties are abandoned and collection of taxes decreases, the problem will become much greater because fewer and fewer taxpayers will have to carry the tax load.

In 1972, when Congress created general revenue sharing, the objective was to provide State and local governments with Federal fiscal assistance on a basis that would allow maximum flexibility in choosing how the funds would be used and minimum involvement by the Federal Government. Supporters of the original legislation agreed that Federal taxes were more responsive to economic growth and more equitable than those of State and local governments.

In addition, many Members of Congress considered the revenue sharing concept as a means of halting the trend of increasing concentration of power in Washington at the expense of State and local autonomy. I believe that objective has been achieved and although modifications occurred in 1976 and 1980, it remains a program that encourages local governments to provide their residents with public services on their own by including an incentive for local tax effort.

Unlike other categorical grant programs, revenue sharing has allowed all cities to obtain supplemental revenue for government operations and capital programs. The majority of cities in South Dakota cannot otherwise qualify for categorical grants that use criteria like under-employment, unemployment and disenfranchised minorities. They have, therefore, come to rely on general revenue sharing as an integral part of their budget.

Frozen at the same level by Congress for 8 years, general revenue sharing cannot and should not be portrayed as contributing to the Federal deficit of recent years.

Our situation in South Dakota is almost atypical because of the relative recovery and prosperity in other parts of the United States. We do not have huge State surpluses as some would contend. We are not an energy-rich State. We do not have large defense plants. We are a State of many small towns who have as their sole source of Federal revenue—revenue sharing. We are a State of balanced budgets. We are a State with its own economic problems. A State which could not replace the loss of revenue sharing.

Statements have been made to the effect that funding for projects for which revenue sharing is now paying the cost could have been handled through various grants and other fund sources which are available.

The fallacy in this statement, however, lies in the fact that most small town councils, and in this respect I am referring to communities under 500 population, do not have full-time employees, and are not aware of many of the funding programs.

In a small town, the members of the city council usually consist of the man who pumps gas at the corner station, the manager of the feed store, a grocer, or a person who farms part time but lives in town. Usually, the time which they devote to the city council activities is limited to the 2 or 3 hours per month spent in local meetings of the council, or an occasional extra meeting. Most of these individuals cannot afford to hire additional employees to provide time for council meetings.

Most South Dakota towns would happily trade in all Federal grant programs for the chance to keep revenue sharing.

Neither the court system or the Congress of the United States have been very helpful in our fight to save the rural Main Streets of America. It seems that every day Congress or the courts impose some new program or standard on rural America. The most recent is the case of *Garcia* v. *San Antonio.* The Supreme Court ruled that cities must come under the Fair Labor Standards Act. The ruling will cost several million dollars in South Dakota.

The Congress tells us what the quality of our drinking water must be, what the condition of our jails must be, how our cable TV systems must be operated and how we are to operate our very small hospitals.

We must retain Federal support for the implementation of national policy at the local level, particularly when local responsibilities are created by national law or national economic and social trends which are beyond the control of the city. Congresses current approach to national policy which affects small cities is a hit or miss approach. Congress must recognize the effect of its policies on small rural towns. Small town governments are affected in countless ways by legal mandates established by Federal courts and Congress and human mandates caused by economic conditions.

I do, however, see some light at the end of the tunnel. Forecasters seem to be saying that our Main Streets are optimistic. Business people are predicting increased profits by a margin of more than 2 to 1. More than half of the respondents to a March 1985 survey by the University of South Dakota expect gross sales to increase in the next 12 months.

In conclusion, I would like to thank you for the opportunity to appear here today. If the Congress of the United States will work a miracle, and solve the current problems of agriculture; Main Street's problems will solve themselves. In 1896, William Jennings Bryant said it best when he wrote:

> Burn down your cities and leave our farms, and your cities will spring up as if by magic, but destroy our farms, and the grass will grow in the Main Streets of every city in the country.

Thank you, Senator Abdnor.

Senator ABDNOR. A very strong message, and you're right. If we did those various things, we'd have the country back on its feet economically, at least.

I could leave Mr. Stone for the very last, but he was here first. Go ahead, Mr. Stone.

STATEMENT OF KENNETH E. STONE, EXTENSION ECONOMIST, IOWA STATE UNIVERSITY

Mr. STONE. I, too, Mr. Chairman, would like to thank you for the opportunity to speak before this group today. I'd like to start off by saying that the death of small towns has been somewhat exaggerated. I have colleagues that, 20 years ago, predicted that there would be many fewer small towns today and they have been found to be wrong. The small town has turned out to be much more resilient and much tougher than many of us had expected it to be.

However, I don't want to diminish the problems in the small towns. There are some very severe problems, and they are in a weakened state at this particular point, and many of them do need help.

It may be useful to spend just a moment reviewing how these small towns came about in the Midwest.

As most everybody knows, the Midwest was an agrarian society. In the late 1800's, the small towns sprung up to meet the wants and needs of the farm population. In fact, in Iowa, most of the counties are laid out to be 24 miles square so that the farmers who had little mobility in those days could get to the county seat and back in 1 day.

But, over a period of time, we have seen mechanization start replacing farmers and, as the farm population started decreasing, we saw that many of these little businesses that were viable back in the agrarian stage now were no longer viable. So we started seeing the disappearance of many of these small businesses. In fact, if we were designing States today, we certainly would not have anywhere near the number of small towns that we have, nor, I think, would we have the number of counties that we have. But, in the days in which they came about, it seemed appropriate.

I did a study in 1979 for the 1980 White House Conference on Small Business, and we tracked the migration of retail sales in every single county in Iowa, Kansas, Missouri, Nebraska, and we found some very interesting results. We found that if you go back to the midfifties, there was not that much outmigration, if you netted it out, from the rural areas.

When we got into the sixties, we saw something on the order of 10 percent of the people leaving the rural areas, going to the metro areas; when we got into the seventies, we saw it get up in the neighborhood of 15 percent on average.

Now, in Iowa, in 1984, 73 of our 99 counties are what we call leakage counties, and, on average, they're losing 19 percent of the retail trade out of the counties. And they are predominantly rural counties, and, on average, it is $21 million per year per county that is leaving. And it's going to the bigger metro counties.

Another thing we found as we looked at the 1984 data was that 61 counties had suffered outright retail losses compared to the previous year, 1983. And, on average, it was $2.2 million per county. We found 13 counties that suffered 2 consecutive years of retail sale losses and those were primarily in the southern tier counties, that have been hit especially hard by weather and by low prices.

I've done another study on all 950 towns. I keep tabs on every town in the State over a period of years. And, again, we found some very interesting things. We found that, in general, the smaller towns are suffering, as we all know. As an example, 260 towns that we looked at that were less than 500 population have lost 27 percent of their trade in the last 15 years. More importantly, they lost 14 percent of it just from 1983 to 1984, this last year alone, indicating the real impact of the farm situation.

Conversely, many of the larger towns are gaining trade, some as high as 30 percent in the last 15 years. Our capital city, Des Moines, has gained 16 percent, expanded its trade area by 16 percent in the last 15 years; and 8 percent of that came last year alone. And that amounts to about $90 million more last year than they were taking in the previous year.

A couple of years before that, I did a study on the effect of shopping malls and we had quite a large number of shopping malls that came into the State of Iowa in the 1970's and they have been a very devastating force on small towns, actually pulling the trade out of the small towns.

As an example, a shopping mall of 500,000 square foot, on average, will pull about $2.5 million out of each of the adjoining six or seven counties. And if you want to go even two tiers of counties away, on average, it will pull about $1.25 million out of each of those counties.

So that's not the only thing that's pulling trade out of the small towns, but certainly it's been a very potent force.

I have some observations on Main Street also. I travel all over the State of Iowa, roughly 20,000 to 25,000 miles a year, visiting small towns and working with them. They range all the way from ghost towns in some of the smaller towns on Main Street to some that look quite dynamic and quite viable.

The housing stock, surprisingly enough, is in much better shape than most of us realize. It seems to me that in periods of past prosperity there were a lot of new homes built; for example, in the twenties, the fifties, and, most recently, in the seventies, so there is a lot of pretty good housing starts in small towns. A lot of the towns have good churches and schools, although the school enrollment is going down quite rapidly and that's a fear that many people have, that they are going to start losing schools.

We have a lot of nice nursing homes; we have a lot of nice housing for the elderly. A lot of it is fairly new. The infrastructure is pretty good, the water systems, the streets and sewers, and so on.

So if you added up the value of the assets, I think you will find they're worth an awful lot in the small towns.

What are the impacts of the losses of these businesses from the small towns?

No. 1, as was suggested earlier, people are inconvenienced; it becomes a vicious circle. As they start losing stores, they are forced to go to another town to buy that particular merchandise, and they also buy other types of merchandise they normally would have bought in the hometown. So it becomes a very debilitating effect on their hometown.

There's also a loss of tax revenue and a loss of schools because of the lesser enrollment. I think, most importantly, perhaps, is the loss of pride. When their Main Street looks like the pits, so to speak, people don't have much pride in their hometown any longer.

What can be done?

I think, No. 1, in our State, we need to make some efforts to diversify the economic base. Most of these towns have been dependent upon an agricultural economy and we do see pockets of prosperity in the State where they have managed to diversify the economic base.

I think, furthermore, there needs to be a grass roots educational effort in letting people know how this is done. As I visit with people in towns below 2,500 population, most of them don't have the slightest idea even how to get started doing somne economic development.

We think that there's a need to do some case studies to show how these successful towns have done it, and take those case studies to the towns that need the help. I think, from the Federal and State level, there may be some opportunity for tax credits to encourage firms to locate in smaller towns; there may be some opportunities for job credits and certainly some of the incentives that we have now in the way of tax credits for renovating older buildings, and so on, I think, would be used to a much greater degree.

One very encouraging thing I'm seeing in our State is that people are really reassessing their current situation. It is the teachable moment.

Now we are seeing towns that once were arch-enemies, that would not cooperate on anything, now getting together and cooperating on pooling their resources and bringing industrial development and bringing new industry into the area.

I do have a couple of success stories, then I'll close. We have had a few little towns that have literally pulled themselves up by the bootstraps. They actually raised, in some cases, towns of 300 to 400 population, raised $50,000 to $60,000 by getting donations from people to form nonprofit corporations; they have rebuilt their own general store or convenience store and restaurant, and that type of thing.

I see the people I'm working with. They're not looking for massive Government subsidies or anything like that. They would just like a minimum of help, some instructions on how to do it. And I think, in many cases, they are willing to take the bull by the horns, so to speak, and get the job done themselves. Thank you very much.

[The prepared statement of Mr. Stone follows:]

PREPARED STATEMENT OF KENNETH E. STONE

THE ECONOMIC CONDITION OF RURAL COMMUNITIES IN THE MIDWEST
A CASE STUDY OF IOWA

SUMMARY

- Many rural towns in the Midwest sprung up around the turn of the last century to serve the needs of a relatively immobile agrarian population.
- Farm population density decreased with mechanization, thereby causing many businesses in small towns to become economically non-viable.
- A study by the author for the 1980 White House Conference on Small Business found a gradually accelerating migration of retail sales from rural areas to urban areas in Iowa, Kansas, Missouri, and Nebraska.
- A 1984 study by the author found that Iowa's 830 towns below 2,500 population suffered heavy losses of retail sales in the last 15 years, with the heaviest losses coming in 1984.
- A 1982 study by the author found that regional shopping malls have been a major factor in the last decade in capturing retail trade from outlying smaller towns.

- The loss of main street businesses in small towns has had a very debilitating effect, causing inconvenience to residents, loss of tax base, and loss of pride.
- Possible solutions include "grass roots" educational efforts on economical development, federal tax incentives, and regional economic development groups.

In the early statehood years, the Midwest's economy was based largely on agriculture. Towns sprung up in regular geographical patterns to meet the needs of farmers. Before the advent of motorized vehicles, nearly all these needs could be met in the nearest town or at least somewhere in the county. However, once farming became mechanized, large numbers of farmers were slowly, but surely displaced by machinery. At the same time, the remaining farmers were gaining the mobility to range further from home to acquire their needs. As the density of farmers decreased, main street businesses began failing in the smaller towns because of reduced numbers of customers. Other institutions such as schools were closed and consolidated because of a reduction in population.

Some towns managed to preserve their economic viability by attracting non-agricultural industry, or by expanding the geographical area for marketing their agriculturally-related products. Many towns that did not rebuild their economic bases to compensate for the loss of farm population, ended up with main streets that resembled ghost towns. Yet in cases where the town was within commuting distance of larger towns, many residents continued to live in the small town, but traveled to the larger town to work and shop.

Recent studies and observations

A study for the 1980 White House Conference on Small Business (1), found that the trend of shoppers leaving rural areas to shop in urban areas accelerated dramatically from the mid 1950s to the late 1970s. The study analyzed the net flow of retail trade between counties for Iowa, Kansas, Missouri, and Nebraska. Similar trends were found in all four states. In the mid 1950s, the net outflow of retail trade from the least populated counties was, on average, less than five percent. In the 1960s, the "leakage" of retail trade from rural counties increased to approximately ten percent. By the late 1970s, the less populated counties were experiencing average leakages of approximately 15 percent, while the urban counties were acquiring a growing net inflow of retail sales.

In Iowa in 1984, only 26 out of 99 counties enjoyed net inflows of retail trade. These were primarily urban counties. In the most extreme case, Polk County, home of Des Moines, the state capital, experienced a 35 percent surplus. This was nearly $1 billion more than the residents of Polk County alone spent in 1984. The remaining 73 counties experienced leakages averaging $21 million per county. In the worst case, a county adjacent to Des Moines, the state capital, experienced a leakage of over $100 million. In general, counties adjacent to metropolitan counties exerpienced the heaviest outflow of retail sales.

Town studies

Studies of the retail performance of most of Iowa's 955 towns (2) have vividly illustrated that those of less than 2,500 population have, in general, experienced shrinking trade area population over the last 15 years, while most of the 120+ towns over 2,500 population have gained in trade area population. For example, the 260 towns of less than 500 population have experienced average retail losses of over 27 percent from 1976 to 1984. For these towns, 1984 has been the worst single year for retail losses and amounted to over 14 percent or approximately $250,000 per town on average.

Many of the larger towns have experienced gains in retail sales over the last 15 years, ranging as high as 30 percent. Des Moines experienced retail sales gains of 16 percent in the last 15 years. In 1984 alone, Des Moines' trade area population expanded over eight percent, meaning that over $90 million lost from smaller towns was gained by the capital city.

Effects of shopping malls

A 1981 study (3) found that shopping malls in Iowa acted as giant magnets in drawing retail trade from surrounding smaller towns. It was found that, on average, a 500,000 square foot shopping mall captured approximately $2.5 million from adjacent counties and over $1.2 million from second tier counties. Shoppers' goods stores, such as variety stores, clothing stores, shoe stores, jewelry stores and others were most severely and immediately impacted. However, negative impacts were soon felt by other types of stores such as hardwares, groceries, drug stores and others. Apparently as residents of small towns traveled to shopping malls to obstensibly shop for shopper's goods, many of them also bought convenience-type items that they normally would have bought in their home towns, thereby exacerbating the situation for a large number of the small town merchants.

Many small town merchants, faced with reduced volume because of losses to the malls, try to recoup profits by raising prices and/or by reducing inventory. Both tactics tend to create the image of a less desireable place to shop in the eyes of consumers and they purchase even more items out of town. The situation usually becomes untenable for the smaller merchants and they eventually go out of business.

Observations

As one travels around the State of Iowa, it soon becomes obvious that each town has a character of its own which reflects fairly accurately the collective nature of its residents. Most of the smaller towns still have an active grain elevator and other stores supplying feed, seed, fertilizer, and other farm necessities. Many of these stores are farmer-owned cooperatives, although a substantial number are independently owned. However, when one examines main street, the picture is quite varied. In the worst cases, main street resembles a ghost town, with most of the stores long ago closed and boarded up. Many are in very poor states of repair and are eyesores. In the best cases, main street looks alive and vibrant and appears to be serving a sizeable portion of the needs of the town residents. In the vast majority of cases, towns below 1,000 population have a few strong businesses such as hardwares, lumber yards, and various services, but almost invariably they will also have a few vacant stores that are gradually weathering away.

The housing stock in many small towns is surprisngly good. Typically, it appears that many of the homes were built in previous periods of prosperity, such as the 1920s, the 1950s, and most recently in the 1970s. Usually the price of housing in small towns is much lower than in the larger towns and cities. Consequently, many people prefer to live in the smaller towns, even if it means commuting a considerable distance to work and/or shop.

The infrastructure of many of the small towns also appears to be in relatively good shape. Many of the water and sewage systems have obviously been installed in the last couple of decades. Other utilities seem to be adequate. Roads and streets vary from town to town but, in general, are in decent shape. Most of the towns have schools and churches in good condition.

Impacts

The loss of main street businesses hsa a very detrimental effect on smsli towns. Perhaps the most serious impact is the inconvenience created for the town residenta. In some cases, residents must travel to another town to purchase the necessitiea of life, such as food, gasoline, hardware, etc.

Although retail and service businessea are not the prime movers of sn economy, they do provide jobs for people. Therefore, when these businesses terminate, ao too do the jobs they provided. Consequently, even more people sre forced to leave town to find a means of making a living.

Every closed business in a community represents a loss of tax revenue to that municipality. Therefore, either taxes must be raised for the remaining residents or they must settle for reduced levela of services.

An intsngible, but critical impact of a ravaged main street, is the loss of pride suffered by the town residents. Often, the vscant buildings are owned by absentee landlords who sometimes cannot even be located. Therefore there is a sense of helplessness and frustration as residents wstch their downtown deteriorste.

What can be done?

One of the most crucial steps in the economic development of small midwestern towns is the rebuilding of an economic base that is more diversified and less dependent on agriculture. This does not necessarily mean that every town needs to attract new industry. However, if towns are to survive in the long-run, sufficient jobs must be available within a reasonable commuting distance. The problem, though, is that most residents of small towns do not have the slightest idea of the procedures necessary to bring new industry into the area. Therefore, in my opinion, one of the most cost-effective steps that could be taken is to implement a "grass-roots" educational effort aimed at teaching local leaders the basis of economic development. Ideally, the instruction would be capped off with case studies illustrating how some towns successfully accomplished economic development. A few state Cooperative Extension Services are entering into this educational effort. They have the ideal organizational structure to accomplish this effort, but most need additional resources to properly get the job done.

Federal tax incentives could play an important role in economic development in rural towns. For example, some firms could be persuaded to locate in smaller towns through the use of tax credits. In addition, jobs credits could be made available to firms hiring persons in small towns. The existing tax credits for renovating older buildings and historic sites would probably be used more extensively if firms had other incentives to locate in small towns.

It does not make much sense for every small town to compete individually for new firms. A more sensible idea is for several towns in a geographical area to band together and pool their resources to collectively attract new firms into the area. In this way, the chances of success are enhanced and all towns have the opportunity to benefit. Educational efforts and modest financial assistance would be necessary to carry out this form of regional development.

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(3) Stone, Kenneth E., "The Effect of Shopping Centers on Host Towns and Outlying Areas." Paper presented at American Agricultural Economics Association Meetings at Logan, Utah, 1982.

Senator ABDNOR. Thank you, Mr. Stone. That's excellent testimony. I'd be happy to have all the information you put together because what we're hearing today is the very thing I have been trying to make clear in the Congress, making some of our urban friends realize it is a different situation out in rural America, and we have seen, in the big cities, it doesn't seem to register yet.

It may be starting. The farm crisis certainly helped bring it to their attention. And I'm glad they're realizing we're having trouble. And everyone else must be in trouble out there, too. But we hope to reinforce it with some of the things we accomplished here with the testimony in getting the message out to the Congress, and hoping that some attention will be given to it.

Our last witness, Mr. Stuart Hardy, of the U.S. Chamber of Commerce, we welcome you, too. We certainly know you have a big background in what's going on in the cities, but also out in the rural States, too.

STATEMENT OF STUART B. HARDY, MANAGER, FOOD AND AGRICULTURE POLICY, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY WILLIAM D. KELLEHER, MANAGER, COMMUNITY RESOURCES SECTION

Mr. HARDY. I thank you, Mr. Chairman. I am Stuart B. Hardy, manager of Food and Agriculture Policy for the Chamber of Commerce of the United States. I'll keep my oral remarks brief, but I would respectfully request, sir, with your permission, that the full text of our prepared statement be printed in the permanent hearing record.

Senator ABDNOR. Without objection, it will be made part of the record at the end of your oral statement.

Mr. HARDY. Many factors affect the rural economy; however, I would like to confine my testimony this morning primarily to one of the most important of these factors, which is, of course, agriculture and Federal agricultural policy.

In your letter of invitation to participate in this hearing, Mr. Chairman, you correctly pointed out that the rural economy is not yet fully participating in the current robust expansion of the rest of the U.S. economy. This is especially true of the Great Plains States and other rural regions which are heavily dependent upon agriculture.

I think it is less true, however, of the rural northeast and other rural regions, which are less dependent on agriculture because many nonfarm sources of employment, such as recreation, are available in those areas.

So I think it's important to keep in mind the distinction between rural areas that are heavily or almost totally dependent on agriculture and those with a relatively mixed base economy.

The current economic difficulties of rural Main Street are often a direct consequence of the recent downturn in the farm economy. And as all three of my panel colleagues have indicated this morning, the rural problem is, to a very large extent, an agricultural problem.

Mr. Chairman, just 3 or 4 days ago, I was speaking to a member of the U.S. Chamber's Food and Agriculture Committee, who comes from a relatively small town—10,000 to 15,000 people—in southeastern Nebraska. And he gave me a very good example of the kinds of problems that rural America is now confronting in those areas which are very heavily dependent upon agriculture as a source of their income.

He indicated that in the last 30 days, three of the largest retail outlets in this town in Nebraska have announced plans to close down by the end of the summer. That is going to leave a yawning gap on the Main Street of that town. And what is particularly tragic is that, by all accounts, if you look at the USDA estimates of net farm income for next year, we haven't yet bottomed out. So we have a very, very serious problem out there.

The U.S. Chamber is very well aware of the acute financial distress in rural agricultural areas of the country because we hear from our local chambers all around the country. Low farm income and record-high farm indebtedness have put enormous stress on the entire fabric of rural economy, and I think it's important to point out that all rural institutions, not merely Main Street, but also schools, hospitals, banks, and churches are feeling the ripple effects of this rural agricultural recession.

These hearings are very timely, Mr. Chairman, because as the farm recession begins to translate itself into a rural recession, the information gathered here in these hearings, I think will be of great value to policymakers, not only here in Washington, but at the State and local level as well.

In July of 1984, the U.S. Department of Agriculture submitted to Congress a rural development strategy report, entitled "Rural Communities and the American Farm—A Partnership of Progress." I commend this report to the committee. It includes a number of, I think, very practical and doable recommendations for better coordinating the numerous Federal programs and policies which affect rural communities. And I think it also delineates a strategy for using available Government resources to leverage maximum change by forging a partnership with local rural leaders in the private sector.

This is something the chambers of commerce—not only the U.S. Chamber, but our local chamber affiliates—are very keen on, more of a partnership between the Government and the private sector to get some of these problems solved. The Federal Government does not have the resources, nor does it have the wisdom to impose a rural solution from Washington, DC; however, the Federal Government does have sufficient resources to mobilize local community and business leaders and provide them with the necessary technical assistance to begin to revive their communities.

As Mr. Stone indicated, technical assistance is one of the great needs out there—perhaps an even greater need than financial assistance. Know-how, some guidance and direction are needed to help these local leaders begin to tackle their own problems.

An example of this Federal/local/business partnership and one which the chambers have been enthusiastically involved in, is the Main Street program, Mr. Chairman, which I know you're a good supporter of, begun 7 years ago by the National Trust for Historic Preservation to restore the economic health and vitality of small cities and towns.

This program has helped over 100 communities in 11 States to transform decaying business districts into thriving commercial centers. The program involves very little Federal expense; it is not a grant program. Rather, it is a program of technical assistance that helps local communities identify the means and methods of restoring their downtown centers.

Last September, the U.S. Chamber and local chambers assisted the National Trust for Historic Preservation and the Department of Agriculture in a video conference in which rural leaders from hundreds of communities participated. The video conference provided a 5½ hour course to help develop Main Street projects and implement those projects. Less than a year later, we are already beginning to see the concrete results in dozens of new community projects all over the country. And I offer this, Mr. Chairman, just as one example of how technical assistance and relatively little Federal cost can pay big dividends.

I would like to use the remainder of my time to address the question of how agricultural policy affects the rural economy. Thanks, in part, to the work of this committee, many recognize today that farm and commodity programs often have unintended and disruptive effects on other sectors of the farm and rural economy.

The payment-in-kind experience in 1983 provides a graphic example of the ripple effects of commodity programs on farm-supply businesses, and others. As we all know, I think, in this room, Congress this year will fashion a new multi-year farm bill to replace the expiring 1981 Food and Agricultural Act.

This legislation will provide an opportunity to design programs which take into account not only the 2 or 3 percent of our total population that lives on farms and ranches today, but the 22 million jobs in our total economy, many of those jobs in rural communities, which depend more or less directly on food and fiber production.

My prepared statement includes an appendix, which is entitled "Position Paper on Agricultural Policy in the 1985 Farm Bill." And this appendix outlines the rationale for specific recommendations of the chamber. I won't go into those specific recommendations but I would like to make a few general observations.

The chamber's positions on food and agricultural policy are based on the findings and recommendations of a very large number of farm policy studies and reports which have been published within the last year or two, and that includes, I might say, Mr. Chairman, an excellent staff study issued by this committee back in December of 1983.

These numerous studies and reports represent differing political and economic perspectives, but I think there are several common points which have emerged and which have focused on several common themes, and I'd like to just cite four of those themes before I close.

The first is that: Farm program benefits should be targeted to full-time producers whose income is derived mostly or entirely from the farm, rather than paying large benefits to hobby farmers, to the type of farmers who have gotten into it for tax benefits, as you indicated earlier, Mr. Chairman; and others that don't really need the assistance.

Second, I think the general point that has emerged from our farm policy debate this year is that the commodity price regulation is not a very efficient method of maintaining farm income. Perhaps we should look around for an alternative method of supporting the income of farmers and ranchers who really need income support, rather than doing it through commodity price regulation.

A third point is that U.S. export credit programs could be made more effective if intermediate term credits were made available and programed on a multiyear basis. And, here, I'm referring to some of the export financing programs of the Commodity Credit Corporation.

And, then, finally, Mr. Chairman, I think it's fair to say most participants in the farm policy debate now agree that some aspects of existing commodity programs, especially the nonrecourse loan programs, are giving our competitors—the Argentines, the E.C., the Canadians, the Australians, and other farm competitors—an unfair advantage because these nonrecourse loan programs provide a price umbrella over world commodity markets at U.S. expense.

So, at that point, Mr. Chairman, I would like to wrap up my comments. And, again, I have tried to focus on the agricultural-related portions of this rural problem. Thank you.

[The prepared statement of Mr. Hardy, together with the appendix referred to, follows:]

PREPARED STATEMENT OF STUART B. HARDY

I am Stuart B. Hardy, Manager, Food and Agriculture Policy, Chamber of Commerce of the United States. Accompanying me is William D. Kelleher, Manager, Community Resources Section. We welcome this opportunity to present the U.S. Chamber's views. Many factors affect the rural economy; however, I will confine my testimony primarily to one of the most important of these factors: agriculture and federal agricultural policy.

In his letter of invitation to participate in this hearing, Vice Chairman Abdnor correctly pointed out that "the rural economy is not yet fully participating in the current robust expansion of the rest of the U.S. economy." This is especially true of the Great Plains states and other rural regions which are heavily dependent upon agriculture. It is less true of the rural northeast and other regions which are less dependent on agriculture because many non-farm sources of employment are available. The current economic difficulties on rural Main Street are often a direct consequence of the downturn in the farm economy. To a large extent, the rural problem is an agricultural problem..

The U.S. Chamber is well aware of the acute financial distress in rural agricultural areas of the country. Low farm income and record high farm indebtedness have put enormous stress on the entire fabric of rural society. All rural institutions, including schools, hospitals, retail businesses, banks, and churches, are feeling the ripple effects. These hearings are very timely because, as the farm recession translates itself into a rural recession, the information gathered here will be of great value to policy makers at all levels of government.

In July, 1984, the U.S. Department of Agriculture submitted to Congress a rural development strategy report entitled Rural Communities and the American Farm: A Partnership for Progress. I commend this report to the committee. It includes a number of practical recommendations for better coordinating the numerous federal programs and policies which affect rural communities. It also delineates a strategy for using available government resources to leverage maximum change by forging a partnership with local rural leaders and the private sector.

The federal government does not have the resources to impose a rural solution from Washington, D.C. However, the federal government does have sufficient resources to mobilize local community and business leaders and provide them with the necessary technical assistance to begin to revive their communities.

An example of this federal-local-business partnership—and one in which chambers of commerce have been enthusiastically involved—is the Main Street program. Begun seven years ago by the National Trust for Historic Preservation to restore the economic health and vitality of small cities and towns, the program has helped over 100 communities in 11 states to transform decaying business districts into thriving commercial sectors. The program involves very little federal expense. It is not a grant program but a program of technical assistance that helps local communities identify the means and methods of restoring their downtown centers.

Last September, the U.S. Chamber assisted the National Trust and the Department of Agriculture in a video conference in which rural leaders from hundreds of communities participated. The video conference provided a 5 1/2 hour course in how to develop and implement a Main Street project. Less than a year later, we are already beginning to see the concrete results in dozens of new community projects all over the country. This is an example of how technical assistance, at relatively little federal cost, can pay big dividends.

I will use the remainder of my time to address the question of how agricultural policy affects the rural economy. Thanks in part to the work of this committee, many recognize today that farm and commodity programs often have unintended and disruptive effects on other sectors of the farm and rural economy. The Payment-in-Kind experience of 1983 provides a graphic example of the ripple effects of commodity programs on farm supply businesses and others.

Congress will fashion a new, multi-year Farm Bill in 1985. This legislation provides an opportunity to design programs which take into account not only the two or three percent of the population living on farms and ranches but also the 22 million jobs that depend on food and fiber production.

The new farm legislation also provides an opportunity to benefit rural communities by undertaking long-term reforms aimed at a healthier, more competitive U.S. agriculture. My testimony includes an appendix, entitled Position Paper on Agricultural Policy and the 1985 Farm Bill, which outlines the rationale for specific recommendations.

The Chamber's positions are based on the findings and recommendations of a very large number of farm policy studies and reports which have been published within the past year or two, including an excellent staff study issued by this Committee in December, 1983. These numerous studies and reports represent differing political and economic perspectives. Nevertheless, several common points have emerged around the central theme that current programs are not working. Many researchers agree on four key points.

- Farm program benefits should be targeted to full-time producers whose income is derived mostly or entirely from the farm.

- Commodity price regulation is not an efficient method of maintaining farm income. An alternative method of income support is needed.

- U.S. export credits could be made more effective if intermediate-term credits were made available and programmed on a multi-year basis.

- Some aspects of existing commodity programs--especially the nonrecourse loan--are giving our competitors an unfair advantage by providing a "price umbrella" over world commodity markets at U.S. expense.

These points helped shape and fashion the U.S. Chamber's farm policy recommendations.

Our six recommendations deal only with the major commodity and export promotion programs.

1. Nonrecourse Loans. Nonrecourse commodity loan programs for wheat, corn, feed grains and rice need to be determined by a flexible, market-based formula. Nonrecourse loans must be continued. However, inflexible loan rates, set by statute above market clearing levels, stimulate excess production, undermine international competitiveness and result in disruptive acreage reduction programs perpetuating farm depression.

2. Target prices. The target price system should be phased out and an alternative system, carefully designed to avoid any interference with market forces, should be established for equitably dealing with temporary problems of low farm income. Deficiency payments are expensive and benefit largely those who need them least; target levels, considered to be "market neutral," in fact, have been market disruptive.

3. Farmer-Owned Reserve. The Farmer-Owned Reserve (FOR) is both a useful marketing tool and a cost-effective method of assuring supplies. However, the FOR should be limited, simplified, and not used to manipulate prices.

4. Supply management. Supply management programs have been extremely costly and disruptive for farm suppliers, livestock and dairy producers, post-harvest industries, taxpayers and consumers, and they have been self-defeating in the larger context of a global agricultural economy. Supply management programs have failed to assure needed farm profitability.

5. Dairy. The present and gradual decline in the dairy support price is the most effective and equitable method of bringing supply into balance with demand and should be continued.

6. Export Development. Export efforts should be strengthened and redirected, perhaps by a "ladder" of food aid and export credit programs. At the base of the ladder is P.L. 480 (Food-for-Peace Program). Moving up the ladder are intermediate-term export credits for developing countries which are beyond P.L. 480 but which cannot meet the more stringent terms of the GSM-102 short-term guarantee program. At the top of the ladder, short-term credits on a multi-year basis, would improve export opportunities among the most prosperous developing nations. Congress should also consider the Grace Commission recommendation that credit guarantees under the GSM--102 export credit program be made transferable.

Food assistance and export market development programs are a cost-effective means of providing humanitarian relief and expanding foreign markets. These programs should not be used to achieve domestic or international policy goals unrelated to food aid or export market development. In particular, cargo preference restrictions should be eliminated or replaced by other methods which do not inhibit export sales and food assistance. Also, U.S. programs should not be used to subsidize the development of processing and other facilities which directly compete with U.S. firms and displace value-added export products.

These recommendations can bring about needed structural adjustments in U.S. agriculture. However, some producers who are now dependent upon price supports and deficiency payments may experience economic difficulty. Temporary programs of assistance may be needed to mitigate economic hardship.

CRITERIA FOR TEMPORARY ECONOMIC HARDSHIP MEASURES

Government has an obligation to bring about structural reforms as smoothly and orderly as possible, possibly through development of temporary "safety net" measures to accompany reforms in the farm program. In our judgment, such measures should meet four essential and minimum criteria:

1. their cost must be less than what they replace;
2. they should be terminated at the end of an appropriate transitional period;
3. they should include means tests or other mechanisms to assure that benefits are directed only to those in need; and
4. they should separate income maintenance from price supports.

APPENDIX

CHAMBER OF COMMERCE OF THE UNITED STATES

POSITION PAPER

ON

AGRICULTURE POLICY AND THE 1985 FARM BILL

NOVEMBER, 1984

INTRODUCTION

The past five decades have witnessed dramatic changes in agricultural technology, structure and marketing, but Federal farm stabilization programs have undergone relatively less change in this same period. There is ample and growing evidence that these aging farm programs are increasingly ineffective in dealing with the challenges and opportunities of this decade and beyond. Their inadequacies have become more obvious in recent years as their costs to taxpayers have increased (from $6.6 billion in 1981 to $28.3 billion in 1983) with little apparent effect on farm prosperity (1)*.

Inflexible commodity price supports, set at higher than market levels, have resulted in inefficient resource allocation and a vast build-up of price depressing surplus stocks. Fragile land has been brought into production to the detriment of sound resource management. Foreign competitors have been encouraged to undercut U.S. prices in world markets (2).

Similarly, efforts to control the volume of production through voluntary controls on planted acreage have had a long history of disappointing results for the obvious reason that

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* Notes and references are at the end of the paper.

such programs encourage farmers to retire their least productive land and farm the remainder intensively. Moreover, other grain producing nations have taken advantage of U.S. acreage reductions to increase their own production, while importing nations have viewed U.S. cutbacks with alarm.

U.S. agriculture has become more integrated into the non-farm domestic economy and into world markets. The consequences of farm programs are felt far beyond the farm gate and have ripple effects throughout the 23 percent of the total economy which is farm related. Nevertheless, Congress and recent Administrations continue to develop farm programs on a commodity by commodity basis, with little apparent regard for their effect on the livestock, poultry and dairy sectors, much less on farm supply businesses, post harvest industries, trade competitiveness, and consumers.

Major elements of the federal farm program expire on September 30, 1985. The new Farm Bill provides an opportunity to begin significant structural reforms in the farm program for crop year 1986 and beyond.

WHO BENEFITS?

A recent Economic Report of the President (3) calculates that if farm program payments in 1983 were distributed equally among the nation's 2.4 million farmers and ranchers, each farm/ranch would have received about $12,000. However, because program payments are distributed in direct proportion to volume of production, a disproportionate share of benefits goes to the relatively small number of farmers who produce the bulk of supported commodities. For example, in 1982, 78% of all direct federal farm program payments went to a minority (29%) of farmers with annual sales in excess of $40,000 (4).

The official definition of a farm/ranch is any unit of land producing at least $1,000 in gross sales of agricultural products per year. The Congressional Budget Office and USDA's Economic Research Service have recently completed studies (5) of the 2.4 million farms/ranches that satisfy this definition in an attempt to categorize farms/ranches by acreage, production volume, and income. The results (see Appendix, Table 1) suggest that more than half (1.4 million) of total U.S. farms/ranches are small units with less than $20,000 in annual gross farm sales. This group earns more than half (60%-80%) of its total income off the farm. Many appear to be truck farmers, hobby farmers or tax shelters with little need for, or interest in, price support programs. On average, this group has a negative net farm income, if the statistics are credible (see Appendix, Table 1).

A second category consists of about 670,000 farms/ranches with gross farm sales in the $20,000 to $100,000 range. This group tends to be the mid-sized "family farmers" who are full time farmers and earn less off farm income than smaller scale farmers. The mid-sized farmers account for more than 25% of the nation's farms/ranches, but they earn only 10% of net farm income (see Appendix, Table 1).

Finally, the third category of farms/ranches is made up of about 300,000 units with gross farm sales in excess of $100,000. While this group makes up only about 13% of the total number farms/ranches, they account for more than 80% of total net farm income. In fact, the 25,000 farms which average more than one half million dollars in annual farm sales account for about 60% of the total. Many of these large scale operations participate in, and benefit from, federal price support programs (see Appendix, Table 1).

Several recent studies appear to confirm that mid-sized, full time farmers are in the greatest difficulty today and face an uncertain future (6). This is particularly true of younger farmers who pursued an expansionist strategy in the decade of the 1970's and became heavily indebted on the expectation of continued strong prices. Farm programs, as presently structured, have done little to alleviate the distress of farmers in this category. At the same time, however, they have provided unneeded benefits to many large scale, adequately capitalized producers.

The spectacle of huge government payments to large volume producers has provoked renewed interest in "targeting" program benefits to those farmers and ranchers, presumably small and medium scale full time farmers, in greatest need (7). The targeting concept, however, raises a number of serious difficulties. For example, it would be very difficult to devise a means test that would equitably distinguish between needy producers and profitable producers, or between gradations of need. Such a program would certainly tend to encourage inefficiency by rewarding marginal managers. Moreover, if payments were limited, large scale producers would no longer have an adequate incentive to participate in voluntary acreage reduction programs. Voluntary production control efforts would have to be replaced by mandatory controls such as marketing quotas. Clearly, this approach leads down the path of far stricter price and production regulation and a retreat from world markets.

This paper suggests a different approach.

POLICY GOALS

Before proceding to a consideration of specific program reforms, it is necessary to establish a broad framework of policy goals or objectives. Current U.S. policymakers, apparently imbued with the Jeffersonian ideal of the small family farm, have exhibited considerable ambiguity in identifying the goals of a national farm policy. The result has been a patchwork quilt of programs and policies that often work at cross purposes.

This paper identifies four basic objectives of the U.S. food and agricultural industry in 1985 and beyond. They are:

1. greater opportunity for farmers and ranchers to attain profitability in the marketplace;
2. abundant supply of affordable food for U.S. consumers;
3. improved competitiveness of U.S. food and agriculture in world markets; and
4. an efficient allocation of resources and products.

These broad objectives cannot be achieved through government mandates. They can only be realized by the private sector working in concert with prudent public policies that enable the food and agriculture industry to make needed adjustments to rapidly changing conditions. Government policy should be designed to promote, not hinder, these broad objectives.

A dynamic, highly competitive agricultural economy requires greater flexibility in farm program management. This measure of discretion, however, should operate within the stable context of consistent, long term policy objectives. Producers should have some assurance that the rules of the game will not change in mid course, and they should not be subjected to the policy shifts and zig-zags that have all too often characterized recent farm policy.

In support of these goals, the remainder of this paper suggests six farm program reforms that should be included in the 1985 Farm Bill to assure greater competitiveness in domestic and international markets. The final portion of the paper identifies some "safety net" methods and mechanisms aimed at easing the transition from price regulation to a market-responsive farm economy.

These recommendations are necessarily moderate and gradual. A half century of price regulation and supply management cannot be eliminated overnight without an unacceptable level of economic disruption. Moreover, the farm economy does not exist in an ideal environment of free trade and free markets. The aggressive trade practices of some U.S. competitors alone makes a degree of government involvement necessary and desirable. For example, export credit guarantees are a poor substitute for a competitive price system based on comparative advantage, but they are nevertheless essential under the circumstances.

Agriculture, always a risky business, has become even less stable in recent years. Adding to the uncertainties of weather and the biological production cycle, is far greater dependence on purchased inputs and export markets. Consequently, changes in macroeconomic factors and in market supply and demand have greater effect and can occur more often. Some level of government involvement may therefore be necessary, although to a far less intrusive extent than at present.

FARM BILL REFORMS

The 1985 Farm Bill provides an opportunity to enact needed reforms in commodity stabilization programs. Six specific reforms are suggested, as follows.

1. Non-recourse Loans. Non-recourse commodity loan programs for weat, corn, feedgrains and rice should be determined by a flexible, market-based formula. Nonrecourse loans provide important marketing and cash-flow benefits and help producers manage risks. However, inflexible loans, set by statute above market clearing levels, have stimulated production, undermined competitiveness in international markets and resulted in disruptive acreage reduction programs.

2. Target Prices. The target price mechanism for wheat, corn, feedgrains, rice and cotton should be eliminated, and an alternative system, carefully designed to avoid any interference with market forces, should be established for equitably dealing with temporary problems of low farm income.

Deficiency payments have proved extremely expensive, benefits appear to have gone largely to those who need them least, and there is growing evidence that target levels, which were designed to be "market neutral," have, in fact, been market disruptive (8).

3. Farmer-Owned Reserve. The Farmer-Owned Reserve (FOR) for wheat, corn and feedgrains is both a useful marketing tool and a cost effective method of assuring adequate supplies in periods of production shortfall. However, the FOR should be limited, simplified, and not used to manipulate prices.

4. Supply Management. We oppose governmental efforts to control production of wheat, corn, feedgrains, cotton and rice. Supply management programs have been extremely costly and disruptive for farm suppliers, livestock and dairy producers, post harvest industries, taxpayers and consumers, and they have been self-defeating in the larger context of a global agricultural economy.

5. Dairy. The Secretary of Agriculture's authority to reduce the dairy support level by periodic, 50 cent increments should be continued beyond its expiration date of September 30, 1985. The gradual "ratcheting down" of the support price is the most effective and equitable method of bringing supply into balance with demand. The dairy diversion program should not be extended beyond its March 31, 1985 expiration date.

6. Export Development. Export efforts should be strengthened and redirected by establishing a "ladder" of food aid and export credit programs. At the base of the ladder, Public Law 480 should continue to be fully utilized for the benefit of the poorest nations, with special emphasis on the statute's importance as a trade enhancement mechanism.

Moving up the ladder, intermediate term export credits should be utilized by developing countries which have graduated beyond P.L. 480 donations and concessional sales but which cannot meet the more stringent commercial terms of the GSM-102 short term guarantee program. These middle rung programs should also assist in the construction of handling, storage and other facilities which enhance a nation's ability to absorb greater volumes of agricultural imports and better feed its people.

At the top of the ladder, short term credits, programmed on a multi-year basis, would improve export opportunities among the most prosperous developing nations. Congress should also consider the Grace Commission recommendation that GSM-102 guarantees be made transferable.

Importing nations should be graduated up the ladder as their ability to meet commercial terms improves. This process of graduation might be further strengthened by a new program offering a multiyear line of direct and/or guaranteed credit under terms negotiated with recipient countries. The program would approximate a credit card. Any draw on the credit line would carry a specified - say six month - maturity. As the six month loans are repaid, the revolving credit line is restored by the payment amount and again becomes available for further credit purchases. Such a program would provide the recipient country with long term credit availability and some assurance of dependable supplies.

Food assistance and export market development programs have proven to be a cost effective means of providing humanitarian relief and expanding foreign markets. These programs should not be used to achieve domestic or international policy goals unrelated to food aid or export market development. In particular, cargo preference restrictions should be eliminated or replaced by other methods which do not inhibit export sales and food assistance.

Outcomes

The foreseeable outcome or effect of these six suggested program reforms largely depends on such factors as interest rates, the strength of the dollar, and economic conditions in developing countries. Under a "best case" scenario of falling interest rates, a more favorable exchange rate, and strengthening world demand, these reforms might be accomplished with very little disruption to farmers or the rural economy because prices would remain strong despite the phased withdrawal of government supports.

However, under less favorable circumstances, the combination of recommendations 1, 2 and 3 (target price phaseout, market-clearing loan rates, and a simplified Farmer-Owned Reserve) would probably result initially in lower grain prices, a drop in net farm income, the continued loss of full time family farmers (9), and the removal of perhaps as many as twenty to thirty million acres in excess grain production capacity (10). Similarly, any drop in dairy supports much below the current $12.60 per cwt level is likely to result in acute distress among highly leveraged dairymen, especially in regions which produce high percentages of manufacturing grade milk.

The benefits of the six suggested reforms become obvious in the longer term. Prices would stabilize within a market responsive range, export competitiveness would improve, production would come more in balance with demand, farm incomes would improve and budget expenditures would decline. The longer term outcomes would include greater opportunity for profitability among surviving farmers and ranchers, a stronger agribusiness economy, improved competitiveness in world markets and a far more efficient allocation of farm resources (11).

Federal programs have caused inefficient resource allocation over many years, often resulting in excess capacity. This has been the effect not only of price support programs for grain, cotton and dairy, but also of import quotas, export subsidies, disaster payments, as well as cheap water, cheap credit and cheap energy policies.

There is no painless way to induce the needed resource adjustment. Some farmers may be forced out of business and others may be forced into less profitable commodities. A phased reduction of price supports may ease the pain, and temporary, structural adjustment programs might be devised to help some farmers survive the transition and help other farmers move into the non-farm workforce if they so choose.

STRUCTURAL ADJUSTMENT MEASURES

Government has an obligation to bring about structural reforms in as smooth and orderly a manner as possible. Congress and the Administration should therefore consider the development of temporary "safety net" measures to accompany market-responsive reforms in the farm program. Such safety net programs, however, should meet three essential and minimal criteria:

1. their cost must be less than the programs they replace;
2. they should be terminated at the end of an appropriate transitional period;
3. they should include means tests or other mechanisms to assure that benefits are directed only to those truly in need; and
4. they separate income maintenance from price supports.

Congress and the Administration may wish to consider any number of safety net options. For example, one program might be aimed at those producers whose long term prospects for survival are excellent but who face a short term cash flow crisis resulting from excessive indebtedness. This group may include many skilled managers with fundamentally solid but highly leveraged operations who cannot "cash flow" under double digit interest rates. Such producers would benefit from an expanded FmHA Economic Emergency Loan Program or from a federal "buy down" of interest rates on farm operating loans underwritten by commercial lenders or production credit associations. (It may prove very difficult, however, to distinguish between those producers who constitute a sound investment and other, inefficient managers who would simply dig themselves deeper into debt at public expense.)

Other "structural adjustment" measures might be designed to accelerate necessary structural trends. Such a program might be aimed at farmers who are producing crops on land that is unsuitable for production for reasons of soil type, climate or proneness to flooding, and whose survival depends on disaster payments and high price support levels. These producers might be "bought out" by means of long term conservation contracts aimed at permanently converting cropland into grassland or woodland (12). The contracts might utilize a bid system to minimize cost to the government. Such a program would have a conservation benefit and also reduce excess production capacity in targeted areas.

Other structural adjustment measures might involve a mix of public and private sector resources. One method is insurance. Farmers may ensure a specific price through forward contracting or selling/buying future contracts. A new and promising tool has recently become available. This year, trading in commodity futures options has begun on a trial basis for the first time in fifty years. With a put option, producers will be able to buy the right to sell their future production at a specified price. Since they are buying the right, and not an obligation, they are locking in a price if the market subsequently falls, and they retain the opportunity to tear up the option if the market subsequently rises.

Similarly, livestock producers will be able to buy insurance against increases in the price of their feed by buying call options. Months later, if the cost of feed goes up, they exercise the option. If it goes down, they tear up the option and buy on the cash market.

Congress may wish to consider subsidizing the cost to eligible farmers and ranchers of purchasing commodity futures options. This proposal might be tested on a pilot project basis.

Another private sector method of managing risk is revenue insurance. The object would be to stabilize income instead of prices. It might work as follows. A farmer would be guaranteed that his revenue per acre of each crop would not fall below some proportion of expected revenues. For example, a corn farmer might insure 75% of average revenue per acre based upon recent experience. If revenue from the corn crop was less than the insured level — due to either low yields or low prices — the farmer would receive an indemnity equal to the difference. An indemnity would not be paid if revenues were inside the normal range of variation within a "deductible."

In 1981, Congress directed USDA to undertake a feasibility study of farm revenue insurance (13). The study was completed in 1983, and concluded that the concept merits further consideration (14). A similar study by the Congressional Budget Office (15) arrived at the same conclusion. Both studies suggested that a pilot revenue insurance program might be undertaken by the Federal Crop Insurance Corporation. FCIC might provide premium subsidies to get the program underway.

BEYOND 1985

Dramatic changes have occurred in the agriculture and food industries since 1970, and even more dramatic changes will almost certainly occur in the next several decades. These are likely to include changes in consumer food preference and diet, improvements in marketing technology and farm management, changes in processing and distribution, breakthroughs in genetic engineering, to name just a few. Other factors can only be surmised. For example, will groundwater contamination/depletion force changes in cropping patterns? Will biological pesticides successfully replace chemical pesticides? What will be the cost of energy, or the strength of the dollar, or the extent of world trade protectionism?

While we cannot anticipate economic conditions in ten or twenty years time, we can be certain that the economic health of U.S. agriculture and the food and fiber industry depends on two conditions:

1. its ability to respond to challenges and opportunities in a flexible and timely fashion; and

2. its competitiveness in domestic and world markets.

These conditions can only be met in a market-responsive environment driven by the three principles of competitive price, product quality, and dependability of supply.

With one in every three or four planted acres now producing for export markets, U.S. agriculture is part of a highly competitive global food and fiber system. Moreover, as the U.S. farm sector has become more specialized, it has become increasingly integrated into the total domestic food and agribusiness industry which now accounts for more than 20% of U.S. gross national product. Consequently, farm policy has an effect throughout the entire U.S. and world economy, and efforts to regulate U.S. commodity prices and supply have an immediate and harmful impact on exports and on the whole chain of food and fiber industries.

Making regulation more effective (by moving toward mandatory production controls, for example) may help reduce government outlays and assure a more equitable distribution of benefits, but its ultimate effect will be higher food costs at home, the loss of export markets, and a shrinking agricultural economy. In short, more regulation will only make the situation worse. The only viable reform is less regulation.

BROADER CONTEXT

Since U.S. agriculture has become increasingly integrated into the general economy, macroeconomic factors such as tax policy, monetary and fiscal policy, and trade policy may have as great or greater effect on U.S. farmers and ranchers than traditional farm programs. The farm and food sector has an especially large stake in low inflation, low interest rates, stable monetary exchange rates, and less restricted international trade.

With respect to the latter item, the U.S. government should vigorously press its case against agricultural trade protectionism and unfair trade practices at every possible opportunity. In particular, there is an urgent need to strengthen GATT rules on import quotas, export subsidies and non-tariff barriers, such as unjustifiable health and packaging standards. Policymakers should also reexamine U.S. laws and regulations that inhibit export development (e.g. Cargo Preference) or limit U.S. markets for foreign food agricultural products. Finally, the U.S. must always strive to maintain a reputation as a reliable supplier.

It is also essential that the United States maintain its competitive edge in agricultural science and technology. The federal/state/private sector partnership for agricultural research and extension, dating back to 1862, has served the nation extremely well. Food and agriculture research and extension have made significant contributions to a wide range of social and economic needs, helped solve environmental and nutritional problems, and provided new and better ways to improve food and fiber production, processing and marketing. Consequently, public assistance should continue to be made available, especially in areas of basic research which are frequently beyond the capacity of individual producers and firms.

CONCLUSION

An economic environment in which farmers and ranchers are provided the opportunity to seek profitability in a dynamic and expanding marketplace is an environment consistent with the best interests of consumers and of other segments of the food and agriculture industry. Farm policy reform will likely involve painful adjustments in some sectors of agriculture and agribusiness. Nevertheless, a market directed policy will free-up numerous tax dollars which can be used to fund temporary programs aimed at cushioning the necessary structural adjustments. In any case, it is essential to the future strength and profitability of the U.S. food and agricultural industry that the new Farm Program enacted in 1985 moves decisively toward greater market responsiveness.

Notes and References

1. Council of Economic Advisors, Economic Report of the President, February, 1984, p. 112.

2. For a discussion of the impact of U.S. production controls on exports, see Congressional Budget Office, Crop Price-Support Programs: Policy Options for Contemporary Agriculture, February, 1984, pp. 27-30.

3. Economic Report of the President, p 112, ff.

4. Ibid., p. 114-5

5. See Congressional Budget Office, "Crop Price Support Programs: Policy Options for Contemporary Agriculture," February, 1984. Also see U.S. Department of Agriculture, Economic Indicators of the Farm Sector: Farm Sector Review, 1982. ECIFS-2, May, 1983; U.S. Department of Agriculture, Farm Commodity Programs: Who Participates and Who Benefits? Economic Report Number 474. September, 1981; and U.S. Department of Agriculture, U.S. Farming in the Early 1980's: Production and Financial Structure. Economic Report Number 504. September, 1983.

6. See, for example, USDA, Economic Indicators of the Farm Sector, January, 1984, Table 19, pp. 146 ff, or Luther Tweeten, "Excess Farm Supply: Permanent or Transitory?", in U.S. Senate Committee on Agriculture, Nutrition and Forestry, Farm Policy Perspectives: Setting the Stage for 1985 Agricultural Legislation, April, 1984, pp 29-43.

7. An articulate case for targeting is made by former Secretary of Agriculture Robert Bergland in testimony before the U.S. House of Representatives Committee on Agriculture, Februry 28, 1984.

8. Secretry of Agriculture John R. Block described the way in which supposedly "market neutral" targets have influenced the planting decisions of the Argentines and other competitors in testimony before the Joint Economic Committee of Congress on May 19, 1983.

9. See National Agriculture Forum, Alternative For U.S. Food and Agricultural Policy, Washington, D.C., First Draft, August, 1984, pp 95-128.

10. Abel, Martin and Draft, Lynn, Future Directions for U.S. Agriculture Policy, Final Report of Agriculture, Stability and Growth: Toward a Cooperative Approach. The Curry Foundation, Washington, D.C., pp 3-4.

11. See Alternatives for U.S. Food and Agricultural Policy, pp 105-107.

12. The U.S. Soil Conservation Service is encouraged by the preliminary results of a pilot cropland retirement program now operating in several southeastern states.

13. See Agricultural and Food Act of 1981 (PL 97-98), Title XI, December 10, 1981.

14. U.S. Department of Agriculture, Insuring Farm Revenue, 1983.

15. Congress of the United States, Congressional Budget Office. Farm Revenue Insurance: An Alternative Risk Management Option for Crop Farmers. August, 1983.

APPENDIX

TABLE 1

Structure of Farming in 1982: Farms by size, number, net income and assets

Farm Sales Class	No. of Farms (1000s)	% of farms	Per farm net income	% of net	Non-Farm income	Net worth per farm
$500,000 and more	25	1.0	572,000	59.9	25,900	2,651,000
$200,000-$499,999	87	3.6	54,072	19.5	13,128	1,322,000
$100,000-$199,999	186	7.7	19,892	15.4	11,008	866,000
$ 40,000-$ 99,999	393	16.4	5,343	9.1	10,857	521,000
$ 20,000-$ 39,999	273	11.4	366	0.6	13,034	324,000
$ 19,000 and below	1,436	59.8	-69	-0.1	18,769	137,000
All Farms	2,400					347,000

Source: Derived from 1982 "Economic Indicators of the Farm Sector," ERS/USDA

TABLE 2

NUMBER OF FARMS AND LAND IN FARMS, UNITED STATES, JUNE 1, 1978-83

YEAR	NUMBER OF FARMS	LAND IN FARMS	AVERAGE SIZE OF FARMS
	THOUSANDS	THOUSAND ACRES	ACRES
1978	2,436	1,044,790	429
1979	2,430	1,043,195	429
1980	2,428	1,042,245	429
1981	2,434	1,042,100	428
1982	2,400	1,038,530	433
1983	2,370	1,035,160	437

Source Crop Production, August, 1983 B-23 Crop Reporting Board, SRS, USDA

TABLE 3

PERCENT OF FARMS, LAND IN FARMS, AND AVERAGE SIZE, BY ECONOMIC CLASS, UNITED STATES, JUNE 1, 1982-83

ECONOMIC CLASS GROSS VALUE OF SALES	PERCENT OF TOTAL				AVERAGE SIZE OF FARMS	
	FARMS		LAND			
	1982	1983	1982	1983	1982	1983
	PERCENT				ACRES	
$ 1,000-$ 9,999	51.3	50.2	12.1	11.1	102	97
$ 10,000-$99,999	35.8	36.6	43.3	41.7	523	498
$100,000+	12.9	13.2	44.6	47.2	1,494	1,561
TOTAL	100.0	100.0	100.0	100.0	433	437

Source: Crop Production, August 1983 B-23 Crop Reporting Board, SRS, USDA

TABLE 4

COMMODITY CREDIT CORPORATION PRICE SUPPORT AND RELATED EXPENDITURES, FISCAL YEARS 1961-1983
(In millions of dollars)

Year	Major Crops a/	Dairy	Other b/	Total
1961-1965 Average	1,546	236	437	2,219
1966-1970 Average	2,287	142	389	2,818
1971	1,576	217	1,029	2,822
1972	3,289	174	520	3,983
1973	2,114	117	1,324	3,555
1974	1,561	46	-603	1,004
1975	433	424	-282	575
1976	359	40	615	1,014
1977	2,812	469	528	3,809
1978	3,321	240	2,062	5,623
1979	1,647	24	1,901	3,572
1980	2,153	1,011	-447	2,717
1981	1,370	1,894	736	4,000
1982	8,989	2,300	309	11,598
1983 (Projection)	13,517	2,190	5,393	21,100

SOURCE: Congressional Budget Office from U. S. Department of Agriculture data.

NOTE: Minus signs indicate net receipts.

a. Wheat, feed grains, rice, and upland cotton.

b. Includes other commodity programs, interest, and administrative and nonadministrative expenses.

TABLE 5

INDICATORS OF GOVERNMENT INTERVENTION IN AGRICULTURE, FISCAL YEARS 1956-1983

Year	Commodity Loans and Inventory (In millions of dollars) a/	Price Support Outlays (In millions of dollars) b/	Acreage Idled Under Government Programs (In millions) c/	Income Return to Equity in Farm Assets (In millions of dollars) d/
1956-1960 Average	7,100	1,633	24	4,900
1961-1965 Average	6,900	2,219	52	5,712
1966-1970 Average	4,200	2,818	54	8,346
1971	4,600	2,822	38	9,096
1972	3,100	3,983	62	9,349
1973	3,400	3,555	20	14,51[illegible]
1974	1,600	1,004	3	30,167
1975	600	575	2	21,394
1976	700	1,014	2	20,633
1977	1,100	3,809	--	13,995
1978	4,000	5,623	18	13,725
1979	5,300	3,572	12	21,715
1980	5,000	2,717	--	27,309
1981	7,900	4,000	--	15,144
1982	8,900	11,598	9	20,589
1983 (Projection)	16,900	21,100	82	13,257

SOURCE: U.S. Department of Agriculture and the Congressional Budget Office.

a. Total of outstanding commodity loans and CCC-owned inventories at start of the fiscal year.

b. CCC price support and related expenditures by fiscal year.

c. Acreage idled in calendar year in which fiscal year ends.

d. The income return to capital invested in agriculture less interest on borrowed funds. Return in the calendar year in which fiscal year starts. Provided by Emanuel Melichar, Senior Economist, Division of Research and Statistics, Board of Governors of the Federal Reserve System.

Senator ABDNOR. Thank you all for your extremely valuable testimony and I think it gets us off on the right tone of what we're trying to do. Today, we addressed the overall situation and as we proceed we will talk about more specifics and get into other areas. You gentlemen got right into the heart of the problems, Mr. Motley, Mr. Stone, and Mr Hardy, not to exclude Mr. Miller. That's his job. I mean, he's devoted to working full time on issues facing towns and he recognizes the problems, and with the close association towns have with agriculture.

I sat in on some of the farm-price hearings down here and the people came in and testified—there was a lady 1 day from Chicago. She carried a number of petitions, with signatures on the petitions, saying they endorse helping the farmers. I interpreted that that she wanted to pay more for her food, that she really wanted to help the farmer out. And I got a strange look from her.

However, this bothers me. People must recognize the fact if we're really going to help the farmer out and do the kind of thing we want, as you go down the road in the marketplace, food prices are going to have to be higher. Food has never been a better bargain anywhere in the world than it is today in America.

Sixteen and one-half percent of the take-home pay goes for food, which is small in relation to any other country. Now, do you really think, talking to people you talked to, that they would accept higher prices?

Sometimes, I wonder about that, even with our own Department of Agriculture, whether it's been this administration or past administrations, Republicans or Democrats, you often find that at the end of the big grain sale a sentence saying: This should not make consumer prices rise. And I just think they should rise if we expect to help the farmer out.

Do you have any comments on that? Do you think they will?

Mr. MOTLEY. Senator, I really don't think that the ultimate consumer has thought the process through and is willing to accept an increase in any price for anything. The consumer is so used to being able to go and get the type of food that he or she wants for that day—cheaply—that I think you're just going to have a natural reaction if food prices were to go up.

I think there's a need to educate the general public as a whole on some of the comments that you made. You see these points come out, but I'm sure they are not sinking in, at least not with the people I'm talking to day in and day out.

Senator ABDNOR. Well, like the housewife, it's something she does every day, like buy food. And she's probably more aware of food prices than anything else. They buy a car every 2 or 5 years. You can just assume that's going up. Or, a suit of clothes. But, somehow, food seems to be singled out. I'll bet Bob has some thoughts on that. Even small towns think food is too high, I think.

Mr. MILLER. That's quite correct, Senator. At home, you remember, a few years ago, there was a 2-cent increase in the price of bread and it was a major news event within the State. We've gotten spoiled by the system and it is an education process. We've got to understand that we're only spending 16 percent of our income on food, and that's probably the best buy we have ever had.

Senator ABDNOR. Well, it won't bother all you gentlemen to comment; I don't want to get involved in the same thing. But, you know, we were talking about using incentives to help our small towns—cash incentives, and things. But, you know, that gets us right back.

Mr. Motley talked about the deficit and I think everybody has them on their mind. Every time we come up with a program, we add to the deficit. I mean, it helps contribute to it. Do you think there's something inbetween? You know, our revenue bonds are going for housing projects out in South Dakota, probably houses that wouldn't be built.

But, let me tell you, it's an expense and it's a drain on the Treasury, a legitimate cost. How would you measure that, John? You started the subject off.

Mr. MOTLEY. Mr. Chairman, I would have to say we would feel the same way about that as we do about the creation of enterprise zones, whether they be urban or rural. From all of the polling that we have done, from all of the experience we have had with small business and small business creation, it generally depends on one thing—the availability of a market.

If you don't have a market, if you don't have customers, if you don't have the people willing to pay for a product or a service, no tax credit, no program is going to create that business and make it stay there.

I would think the first thing you have to address from a rural American standpoint is price in the farm economy; the crisis in agriculture. Once you get agriculture back on its feet so that towns and businesses which are dependent on it can begin to look long-range and plan, you may then begin to try to diversify so that you will never have an impact as deep as this one another time.

But I think the first thing you have to do is address the root cause of the problem and then look for ways of keeping it from happening in the future. I don't believe the tax credits are the answer.

Senator ABDNOR. How do you feel about it, Mr. Stone?

Mr. STONE. I disagree with him. I talked with a grocer the other day, who, if he could have got the town to declare a revitalization loan and given him some revenue bonds and given him some tax abatements, he would have built a new grocery store. The town didn't see that they could do it, and he's going to leave the town. So they're going to lose the grocery store.

We used UDAG grants to build big shopping malls. I know places where that's happening now. We sell revenue bonds to help those people out. I certainly don't see why we can't do the same thing in small towns.

Senator ABDNOR. Well, once you implement that, usually, you find out from Congress you have to start doing it for all parts, and then you get into a mighty big program.

Mr. Hardy, what do you think about that?

Mr. HARDY. I would just make this comment, Mr. Chairman, that since the Dust Bowl days of the Great Depression era, we have had a very broad spectrum of special programs and special agencies to assist rural America—the Farmers Home Administration, the Rural Electrification Administration—just a great host of special programs, which have, I don't believe, done much more than help at the margins.

But when the farm economy is in bad shape, rural economy is in bad shape; when the farm economy is booming, as it was in the seventies with strong prices for basic commodities, why, the rural economy was booming.

So I think we ought to focus not on the various grant and aid programs. And, by the way, I don't think rural America has ever really gotten its fair share of those programs anyhow in comparison with suburban and urban areas.

I think we should focus less on those programs which, whether we like it or not, are becoming extremely expensive and which the public and Congress is less and less willing to fund and support, and look at the basic problem, which is the agricultural problem.

There used to be an expression in Kansas, Senator, that:

"Rural development is $5 wheat." When the price of wheat for a bushel was five bucks, that was all the rural development you needed.

And I think there's more than a grain of truth in that statement. So I would again urge that we not get diverted into looking at some of these—I would call them really marginal programs that do not get really at the heart of the problem.

Senator ABDNOR. I think that's a good point. The farmers in rural America, I found, are some of the best spenders in the world, if they have anything to spend. I think that's our problem. And when I say "we," I'm out there, too. And they probably spend more than they should at times.

But, trying to put dollars in the economy is a problem, especially, how we go about doing it.

You know, you speak of those programs, why, 1½ or 2 years ago, whenever it was, when unemployment was at a high point, they started a jobs bill. It got over here—welcome, Senator D'Amato. Happy to have you.

I knew you were going to try to make it. Senator D'Amato, you're certainly welcome here. This gentleman and I took it upon ourselves to change the formula on the distribution of that billion dollars, as you well remember. We're talking about how much programs help. They don't mention underemployment. I tried to point out to these people that there are probably a few people in this country who are making more on unemployment compensation checks than my people were working for a wage in some cases out there, with that farmer paying for his tractor, that businessman trying to keep that store, the little shop going.

I mean, they'd be very thankful to have the return from that size of a check. Before we got through, we picked up some support. It was designed for the big—I think 10 or 12 big unemployed States. I think the way it worked out we probably got more per capita than anyone else.

But, underemployment is something I find troubling, and I brought the study into being with Ms. Norwood when she came in with the Labor statistics. I used to ask her if it was reflective of rural America, and she admitted it really wasn't.

And I asked her, I wondered who does pay attention to rural America. But, do you think underemployment should be a factor in any formula, if we are doing that, or am I wrong in distributing the money back to the States—revenue sharing? I don't know what that basis is, but do you think that's pretty fair? Are you satisfied with that distribution, Bob, on revenue sharing?

Mr. MILLER. We are very pleased with the current formula on revenue sharing. However, underemployment is a problem in the rural America. Underemployment is widespread; it's a serious consideration for us.

Senator ABDNOR. Is that reflected though in this formula? I should know, I guess. I helped put it together.

Mr. MILLER. Underemployment is not included in the revenue sharing.

Senator ABDNOR. Let me stop.

Senator D'Amato, we have outstanding witnesses here. Mr. Motley is with the National Federation of Independent Business, and Mr. Miller is head of the South Dakota Municipal League, and Mr. Hardy is with the chamber of commerce, and Mr. Stone is an economist with Iowa State University.

Senator D'AMATO. Mr. Chairman, first of all, let me commend you for holding these hearings. I think it's most important that we focus in on main street in America. There are many main streets that are not just confined to the rural areas, so to speak, or in the Far West or Midwest. The main streets and hamlets of Long Island, NY, where I come from, have had a cruel impact, much of which has come as a result of different patterns in shopping, the large urban shopping center away from downtown, et cetera.

Mr. Chairman, I have an opening statement that I would like to enter into the record to save some time. I do have some additional hearings to attend.

Senator ABDNOR. Go right ahead, any way you want to do it. That will be made part of the record.

[The written opening statement of Senator D'Amato follows:]

WRITTEN OPENING STATEMENT OF HON. ALFONSE M. D'AMATO

MR. CHAIRMAN, I APPLAUD YOU FOR HAVING THE FORESIGHT TO CONVENE THIS HEARING TO ANALYZE THE PLIGHT OF RURAL MAIN STREET AND THE INTERRELATIONSHIP BETWEEN SMALL BUSINESSES AND THE AGRICULTURAL SECTOR. THESE SECTORS OF THE ECONOMY HAVE UNDERGONE MAJOR CHANGES OVER THE PAST FEW YEARS.

THE AGRICULTURAL SECTOR HAS SUFFERED FROM HIGH INTEREST RATES, VACILLATING FEDERAL POLICY, SHRINKING EXPORT MARKETS, AND POOR TAX POLICY. SMALL BUSINESSES HAVE ALSO SUFFERED FROM HIGH INTEREST RATES AND INADEQUATE EXPORT OPPORTUNITIES. HOWEVER, TAX POLICY TOWARDS SMALL FIRMS HAS BEEN THE REVERSE OF THAT ENCOUNTERED BY FARMERS. THE FAMILY FARMER HAS BEEN SQUEEZED OUT OF BUSINESS BY WEALTHY INVESTORS SEARCHING FOR LUCRATIVE TAX SHELTERS. SMALL FIRMS FEEL THAT INCOME TAXES AND FICA TAXES ARE TOO HIGH.

MR. CHAIRMAN, IN PURSUING THESE HEARINGS I FEEL THAT WE SHOULD FOCUS ON THE IMPACT OF THE TREASURY TAX REFORM PLAN ON "MAIN STREET." FOR INSTANCE, TREASURY WOULD REPEAL THE GRADUATED CORPORATE INCOME TAX, WHICH ALLOWS COMPANIES WITH UNDER $100,000 OF EARNINGS TO PAY LESS

THAN THE MAXIMUM CORPORATE RATE. REPEAL OF THE GRADUATED CORPORATE TAX STRUCTURE WILL DEVASTATE MANY SMALL COMPANIES.

I AM ALSO INTERESTED IN WHETHER THE TREASURY PALN WILL HELP THE SMALL FAMILY FARM. WILL LARGE DISINTERESTED INVESTORS BE DISCOURAGED FROM CROWDING OUT THE FAMILY FARMER? THIS QUESTION MUST BE ANSWERED BEFORE FINAL JUDGEMENT IS RENDERED ON TAX REFORM.

THANK YOU, MR. CHAIRMAN.

Senator D'AMATO. Thank you, Mr. Chairman. Let me ask, this Senator is somewhat concerned upon the impact that the proposed Treasury tax proposal may have on main street, and I am wondering if any of you have focused in on that, and do you see any adverse impact coming about as a result of some of those Treasury proposals.

Anyone?

Mr. HARDY. Perhaps I should start this off by saying you are absolutely right, Senator, it will have a major impact on rural America, and agriculture has, in some sense, been a major beneficiary of our existing Tax Code; in another sense, it's a victim of our existing Tax Code. And any change in that Tax Code is going to have a very major impact on agricultural and rural areas.

As Senator Abdnor alluded to earlier on before you came in, I think that we might simply make a point that very often those of us who work in farm policy make the point that our farm programs have tended to misallocate resources in that farmers and ranchers make investment decisions and production decisions based on the program benefits rather than on the actual economic realities and whether there's a market out there for the product. And the Tax Code has had precisely the same effect.

We have all heard of horror stories about chinchilla farms that the doctors and the lawyers get involved in, and I think that Senator Abdnor is perhaps on to a very important issue that has been often overlooked in dealing with the implications of the Tax Code on agriculture in the rural areas.

Senator D'AMATO. Let me, if I might, Mr. Motley, just give you a little different perspective.

What about the impact of losing the graduated corporate income tax on small firms, and how many firms might not make it without that graduated corporate income tax.

Mr. MOTLEY. I think that's a very good question, Senator, and one that has to be looked at very carefully. I think, at this time, it's awfully difficult for us to be able to tell what the final shape of the proposal is going to be. In the monitoring that we have been doing of the Treasury proposals, it appears that graduate corporate rates are going to be back into Treasury II when it comes out. Exactly what form it will be in, we can't tell at this time. But if they were to be eliminated, it would have a tremendous impact upon Main Street America because of the potential tax burden on these small firms. I'll just throw some statistics out:

Fifty-two percent of all corporations in the United States make under $25,000 a year in taxable income. Right now, they are taxed at 15 percent on their first $25,000.

Under Treasury I, their rate would jump to 33 percent—a 120-percent increase in their taxes.

Senator D'AMATO. Well, no one cared about the little guy in their proposal, did they?

Mr. MOTLEY. Not in the original one, no.

On the other side though, if you take a look at it, the Code at present has a tremendous bias in it toward capital-intensive industries. What we did in 1981 with ACRS, what we did with leasing in 1981, all favor tremendously capital-intensive industries; most of the larger incentives in the Code favor them.

The intent in Treasury I and, as I understand it, in Treasury II, is going to be to cut back some of those incentives and, by doing that, to drive down individual rates on one side, and—hopefully—keep graduated rates.

Now, if that does happen—and I say if it does happen—then I think Main Street businesses would probably benefit from it.

Senator D'AMATO. Let me ask you this. When we came in with our 1981 tax proposals and adopted them, wasn't it precisely because we said we have an old and antiquated industrial base?

Mr. MOTLEY. Yes.

Senator D'AMATO. That people were not willing to put up and invest in capital, lacking the adequate return?

And it was therefore essential to streamline, to make incentives for capital investment?

Hasn't that brought about a retooling of some of the older industries and seeing the capital investment that we want?

Are we to say the same capital investment would have taken place were we not to do that?

Mr. MOTLEY. I have heard Norm Ture, who was Assistant Secretary for Tax Policy at that time, called the 1981 act, the Reindustrialization of America tax bill, and he believes it was successful.

I think you would also probably find that Mr. Rahn over at the chamber of commerce believes it has been tremendously successful in that respect.

The question is whether you continue at the same pace now to induce that type of investment in capital expenditures.

Senator D'AMATO. Are we winning the industrial war against the Japanese and Koreans, and others? I mean, it disturbs this Senator that something of such tremendous importance in terms of what the economic consequences will be has been bandied about, put out here as absolute theory—philosophical theory—without application.

You know, they say in my State, for example—and the chairman has agreed to hold some hearings back in New York on another area of the Tax Code—what about doing away with the deductibility of State and local taxes? Why, they come in and say:

You know something? The average resident in your State, he's going to be better off.

Sixty percent of them are going to have lower tax rates; they're going to have more money. I wonder how many of those 60 percent won't have jobs?

[Laughter.]

Senator D'AMATO. You know, no one has talked about that. If you destroy the home construction industry and do away with the deductibility of local real property taxes. You know, most Americans say: we want a fair tax. I think they are outraged. We hear of General Electric and others who have made billions of dollars, don't pay a penny in taxes. That outrages people. That really gets them.

They say: What is this? And that's why they're going to tax simplification.

What this Senator is fearful of—and I think we should have a minimum tax—you know, have it and forget about lowering everybody else's. But people don't mind paying their fair share, but they want to see corporate America pay a fair share. Take those moneys and reduce the deficit.

But when you say: Let's do away with the deductibility on local real property taxes, what's going to happen to the value of homes? Is it going to help the value of home ownership?

If you can no longer deduct the local real property as taxes that you pay to the county, will that have an impact on the value of one's home?

Mr. MILLER. Absolutely, Senator.

Senator D'AMATO. What will it be?

Mr. MILLER. It will reduce the value of the property in our State.

Senator D'AMATO. OK. What about then home ownership? Will it make it less desirable?

Mr. MILLER. Certainly.

Senator D'AMATO. I mean, it can do one of three things. It can make it more attractive; it cannot affect it at all, or it can reduce it. Right?

Mr. MILLER. Yes.

Senator D'AMATO. Well, if it makes it less desirable, then how many new homes that would have been built aren't going to be built? What is the economic impact? How many jobs are going to be affected?

So when they say to us, Oh, your people are going to be better off, we're going to have a lower tax rate; yes, that's if he's working. That's the carpenter or the plumber or the tradesman who was selling the home furnishings, et cetera. That's when he had a job.

Mr. HARDY. Senator, may I introduce my colleage, William D. Kelleher, who is manager of the community resources section of the Chamber of Commerce of the United States. He would like to address that question.

Senator ABDNOR. Did you get his name?

Mr. KELLEHER. My name is William D. Kelleher. I am manager of community resources at the U.S. Chamber of Commerce.

Senator, there has been some work done econometrically on the impact of the Treasury proposal on housing production. The feeling is that Treasury I would cut single family housing production by roughly 10 to 20 percent.

Senator D'AMATO. Ten to twenty percent?

Mr. KELLEHER. But production levels would return to current levels over a 3-year period.

In multifamily is where you're going to have a real problem. There is going to be a 10-year recovery period. I think the key in terms of the economic market is the monthly cost. Right now, as you know, the alternative to the mortgage revenue bond issue is a credit certificate program Senator Dole introduced last year.

If you ensure the increased monthly carrying cost by eliminating those deductions, you're going to price more families out of the market. The user fees on the Federal credit programs like Fannie Mae and Ginnie Mae are also expected to be carried in to that monthly carrying cost.

Senator D'AMATO. I agree with you, and I don't know what we're trying to do. I don't know what we're trying to do. If your preliminary figures indicate that there will be a 10 to 20 percent reduction in new houses—and I think it's going to be far greater—let me give you one other item. I think it's a bombshell. I think it's a bombshell.

You talk about dividing America. That's what this tax bill, Treasury I and Treasury II, are going to do. They're really dividing America.

All of a sudden, we have made the concept that if you own a second home, it's something almost as bad. Certainly, you shouldn't be able to deduct your interest on your mortgage.

Well, there had been vast economic incentives and investments that had been made on the basis of the deductibility of the mortgages on second homes.

Colorado has benefited as a result. Vast areas. Arizona and California and Florida. And, in my State, in eastern Long Island. Now, if they do away with that, what's going to happen to the economy? What's going to happen to Main Street in those rural areas where people have come and have settled?

That's what I'm afraid of.

Senator ABDNOR. We have to vote.

Senator D'AMATO. Do we have a vote?

Senator ABDNOR. It just started. I'll go first.

Senator D'AMATO. OK. Senator, will you call up and protect me on that?

Senator ABDNOR. Yes.

Senator D'AMATO [presiding]. Let me ask you something. Do you think they're going to be building homes in Florida at the rate they're building now? Or, in Colorado or in California, if you do away with the deductibility?

The mortgages on the so-called vacation home, or second home, do you think it's going to have an economic consequence?

Mr. KELLEHER. It certainly should in those areas where those types of activity take place. But I think one thing we have to recognize is——

Senator D'AMATO. Wait a minute. Don't go slipping through that now. Don't go slipping through that. Think about it. I want to tell you something. There's an area in eastern Long Island where hundreds, if not thousands of homes, have been constructed. They're vacation homes, primarily. Tens and tens of millions of dollars.

I might suggest probably very few of those homes would ever have been built were they not to have had the ability to deduct that mortgage.

Now what's so bad about that? Thousands of people were given job opportunities in building and furnishing, et cetera. And then you look to the areas, as I mentioned, the great vacation areas and resort areas, et cetera, of America.

I mean, it seems to me, all of a sudden, some economic professor said, quote:

> Better that we lower the rate for everybody and not give home ownership this.

Why?

Mr. KELLEHER. Well, the U.S. Chamber hasn't endorsed any of the tax proposals yet.

Senator D'AMATO. That's a good smart position to take.

Wait until the Treasury gets hold of you and starts twisting your arm.

Mr. KELLEHER. Second homeowners represent roughly 3 percent of stock, so I don't think we're talking about a vast increase in terms of homeownership.

Senator D'AMATO. Well, 3 percent of stock, but let me tell you something. That percentage—and you've got to be careful on those figures. If you'll notice that that came within the past decade, that a decade ago it represented probably 1 percent of the stock.

And so that you have seen an incredible number. You have seen millions literally of new homes that have come in. And although it may represent 3 percent, on a regular basis, it represents increasingly more and more, because, increasingly, we have seen middle America turning to vacation homes; the little retreat up off the Canadian border in my State, and other areas.

Mr. KELLEHER. In the long run, I think you have to ask yourself, Senator, what are the priorities?

Senator D'AMATO. Better they invest in vacation homes than in Government bonds.

Mr. KELLEHER. You have no objection from the private sector on that. In fact, again, we have been trying to push a greater priority setting throughout. There has been a lot of testimony at the hearing today about general revenue sharing. The chamber supported general revenue sharing back when it was introduced during the Nixon administration.

We supported its reauthorization. But, in light of the deficit in the eighties, we have to talk about targeting more to local units of government and eliminating State programs because the States seem to be in better shape.

Today, we have 39,000 municipalities aided under general revenue sharing. In a lot of rural areas, it is the only money they get. It's the only money in a place like McGraw, in Cortland County. But there are other parts of the country that don't need general revenue sharing. And when we're borrowing the money to share, it doesn't make sense not to look at that program.

Senator D'AMATO. How did we get to general revenue sharing? We're talking about houses?

Mr. KELLEHER. Again, the chamber supports things like mortgage revenue bonds because we see them as a way to support local community development without subsidizing it.

Senator D'AMATO. You mean, you can even give the little guy through an IDA loan an opportunity to build and to invest, et cetera? That he might not have because he didn't go to the bank for that little writeoff?

Mr. KELLEHER. I think industrial development bonds, again——

Senator D'AMATO. You must have written my speech.

Mr. KELLEHER. Maybe we did. They were primarily used in rural areas. They became more widely used in rural areas with the rapid rise in rates. We brought that issue before the board on several occasions and we have always had support for both industrial development bonds and mortgage revenue bonds.

Senator D'AMATO. Mr. Motley is getting very—yes, Mr. Motley.

Mr. MOTLEY. I would just like to make one broad general point about the tax situation and Main Street businesses.

Senator D'AMATO. You know what I think about Treasury I.

Mr. MOTLEY. I know what you think about Treasury I.

Senator D'AMATO. It's absurd. You see the thing? Who's got a copy of that? I mean, it says:

"Tax fairness, simplification, equity, and economic growth."

The only thing they didn't put on there was the American flag, apple pie, et cetera. It says: "Are you for these things? Everyone is for those things. We're all for those things."

Mr. MOTLEY. How many things have you seen like that in 6 years?

Senator D'AMATO. I see more and more.

Mr. MOTLEY. Anytime you want to get something done, you put all those things on it and you feel like you're unpatriotic if you don't vote for it.

Senator D'AMATO. You hear that, Robin? From now on, put that on all my campaign things. I mean, it's really sad.

Mr. MOTLEY. Your Main Street businesses are generally high taxpaying businesses; they're not capital-intensive. They can be labor-intensive. They can be inventory-intensive. The point I'm trying to make is that, generally, it's important what these proposals would do to rates—and that's why it's important for you to bring up the graduate corporate rate.

And, on the other side, what is going to happen to individual rates is going to be much more important to Main Street businesses than it is to the rest of the business community. Many of those businesses back in my hometown—East Rockaway and Limerick—are proprietorships, partnerships; they're not corporations. So what happens on the individual side of the ledger, driving those rates down to whatever it might be—35, 30, however low you can get them—is going to be very important.

Senator D'AMATO. Let me ask you this: How many of those people do you think are paying the top rate now?

Mr. MOTLEY. Oh, very few.

Senator D'AMATO. So what are we talking about? You're not giving them any break. You're talking more from one hand in terms of their proprietary interest in their home than you are ever going to give them in business.

Now, for the basic need of living in their home or buying another place, it's going to cost them a lot more money. And so, here we are, we're going to reduce your rate; well, if the people ever saw the rates.

You're not talking about a guy who is paying a 50-percent rate. I mean, it's not there. The little guy and very few in East Rockaway and Limerick and Valley Stream and those communities were paying those rates.

Mr. MOTLEY. Definitely. But, at the same time, you've got very——

Senator D'AMATO. In Idaho and Iowa, how many of those small guys do you think are going to benefit by this?

Mr. MOTLEY. Less than in East Rockaway.

Senator D'AMATO. Less. Sure. These poor guys are hanging on by their nails, so we're going to give them an illusory tax cut because we're going to say, now, everybody is going to pay their fair share. They're never going to get it. And then we're going to stop them where Americans have always had hopes, to own a piece of their own home, own a piece of that dirt, able to pay for it, able to write it off, able to deduct taxes.

We have encouraged that policy and now we're going to shoot it out with this business. You know, the rich will get richer under this plan. No doubt. But I don't think working class middle Americans are going to prosper, and I think there's going to be great job dislocation.

I want to tell you, if you said to me, the chamber has done some studies and they say they're going to lose 10 to 20 percent, or the housing industry is going to go down just on that deductibility, I wonder if you factored in how many houses you are going to lose when you can't build on the second house thing, and how weak that market is going to become? Do you know what's going to happen in the next 10 years?

You won't build any second houses because all the second houses that are owned now are going to be up for sale, and you're going to have people switching, playing a game of what their primary residence is as opposed to the secondary residence.

And I don't see why. I don't understand it. Now they've given me another question. They say I've got to go and vote. So until Senator Abdnor comes back, we'll have a brief recess. He should be back any minute.

I thank you very much. I hope the Chamber of Commerce doesn't take a position yet on this thing, but I think you will.

Mr. KELLEHER. We'll have to see, Senator.

[A brief recess was taken.]

Senator ABDNOR [presiding]. We'll just take a second more. I'm sure there must be some other matters. We were talking about the farm program.

I want to ask you this. You've got to admit that this Administration hasn't been pikers in what we put in the farm program. We started out at something like spending $3 billion for the various programs. When we came into office, we had a peak, I think, of $19 billion with the PIK, but overall it's averaged at least $14 billion a year in those 4 years.

So do you feel that we could do more or less?

Mr. Stone, you are probably as close to that as anyone.

Mr. STONE. I'm really not an expert in the area, Senator, but I think, in the longer run, we have to bring agriculture back to the free enterprise system. If we could just take out our marginal land alone, take it out of production, that would be a tremendous help.

We have just unbelievable millions of acres under cultivation that have no business being under cultivation. It's eroding at terrible rates. We're pumping water out of aquifers out on the high plains for grain we don't really need. And, as I understand it, there's some subsidization going on there also. And I think, in the longer run, we just have to make it responsive to the free enterprise system.

Senator ABDNOR. Well, as I said a moment ago, there's really nothing for 1985 that makes us think the picture is going to get a lot brighter. I hope it improves by 1986. But I don't know what would cause that to happen.

But, Mr. Hardy, you have done a lot of work on this.

Mr. HARDY. Just to put this thing in better perspective, Senator, we are experiencing a global deflation of commodity prices, not only agricultural commodities but other basic commodities, and it's a global phenomenon and it's been going on throughout the decade of the eighties.

We are up against some very tough macroeconomic factors that the U.S. Federal Government has very little control over. Some would argue that we perhaps have some control over the high dollar; some would say we have relatively little control over the high dollar. But factors such as the over-valued dollar and this global phenomenon of commodity price deflation create a difficult context for the farm and rural economy.

So we are trying to fashion a farm bill here and face some of these factors that we have relatively little control over. Nevertheless, I think that there are things that we can do. You pointed out quite correctly that the 1981 farm bill has been the most expensive farm bill this country has ever had.

I think the total cost of this farm bill exceeds $60 billion, and our deficiency payments have gone from the $2 to $3 billion range in the late seventies up to as high as $20 billion in 1983.

But, despite all of this high expenditure, farmers aren't being helped because the benefits are going to those who apparently need them the least.

There are plenty of studies which have been done in the last couple of years. Former Secretary Bob Bergland himself has made a big point of saying that under our payment system, the way our farm programs work now, the bulk of the payments go to those who need them least.

So I think that we need to focus those program benefits, those transfer payments, those income supports on the 600,000 to 800,000 full-time family farmers who depend exclusively or almost entirely on their farm income for a living.

And we need to get away from the situation where dairy farmers, for instance, in 1984, some 51 dairy farmers received over $1 million each in farm program benefits. We really need to get away from that situation and begin to focus those benefits so that whatever the Government is willing to spend, whether it be $5 billion or $10 billion or $20 billion a year on agriculture, at least we know that those funds are going to the people who really need them.

Senator ABDNOR. Well, as you know, and noted earlier in numerous hearings over the last year and a half on agriculture, I certainly have concluded and I think most of our staff might have also, that there's a lot more than just a farm program involved here that can make the difference.

No. 1, we all agree that the best thing we can do for our farmers is drop those interest rates 3 or 4 percent. When a 1-percent rate affects farmers to the tune of $2 billion, it's got to be a big item.

Another thing that we ought to get our dollar in line so we can carry on a more effective foreign trade. We're having a very difficult time. I know we say we can't afford to drop it too quickly or the bottom will fall out of everything, but it's something we have to do.

And we noted earlier my proposal on tax loss farming. Very, very important. And I would think that the fragile land, where we can get the sod-busting bill through, where we just refuse to pay any kind of programs into a farm who farms fragile land. The House and the Senate will decide whether we are going to include the whole unit or just that part of a farm that's fragile. But, I think, to really get the message across, we may have to include the whole farm.

So these are all things that can go a long ways and may be just as important as any farm program, in exports or anything else.

Give these people an opportunity. We were talking tax reform in this. I know, maybe I should be the devil's advocate, talking about the pros and cons of taxes. But, we've got less hog producers today than any time in history, and we are producing more hogs, and it all happened since accelerated appreciation went into effect.

I know that's good for business and helped boost the economy, and put people to work. The very thing Senator D'Amato was talking about was it did help. But, at the same time, I found out, at least as chairman on Water Resources, I have been trying to get an inland water bill and the administration thinks we should have user fees play a bigger part in constructing additional lots and proving equipment. And, rightly so, I guess, if you get right down to it.

But I have run into a wall of opposition and none as fierce as barge people. They were in my office one day and I didn't know why they were so opposed to this. After all, you pass it on, and there are still commodities going up and down the river.

Well, they finally admitted they've got a whole host of additional barges because of the lease-back provision that was in effect at one time. They all went out and acquired additional barges, and now we've got too many barges and they're cutting each other's throats getting business.

So you've got to be kind of careful. You tinker over here and you do something over here, and I just wonder how much of that we're going to run into when we start our tax reform measures.

Mr. MILLER. Senator, you have been very active in the problem we're experiencing in central South Dakota and that was the breaking up of the prairie marginal land for purposes of planting wheat and planting a crop that we are already in surplus on.

It's being done for the tax advantage. And what we could do is help ourselves by somehow finding a way to remove that tax advantage so that that marginal land is not further broken up and we're not planting a crop that's already in surplus.

Senator ABDNOR. That could go a long way, especially under our program. Two years of farming gives you enough history to establish a reallocation, and they become a big recipient if you consummate a crop.

There's one other thing Mr. Jahr and I discovered when we were out in South Dakota with our Rural Vitalization Committee meeting. These people contend that inflation is much higher yet today out in rural America than it is in other places.

Is there anything to that? I mean, we're going to look into it.

Mr. Stone, have the costs out in rural America been going up at a higher clip?

Mr. STONE. I think there is some element of truth to it because the smaller retailers in the smaller towns obviously can't sell in volume, and they have to have higher prices to make some kind of a profit out of their stores.

So I think it's kind of a snowballing effect, too. As fewer and fewer people trade with them, they tend to add a little more to the price to compensate for the loss of profit. So I think there's something to that in the rural areas.

Senator ABDNOR. I was wondering if maybe the parts for machinery and things may have gone higher?

Mr. STONE. I think there's been some of that. Plus, now we're seeing so many farm implement dealers being closed down. We had two closed near our area yesterday and farmers protested both closings because they claim they're now going to have to drive 50 to 80 miles to get parts. And so you put all these things together and it does add up to a higher cost of doing business.

Senator ABDNOR. Did you detect anything in your figures, Mr. Hardy?

Mr. HARDY. No, we haven't. I don't believe we have done any studies to look into that. But I think Mr. Stone is exactly right in his observation.

Senator ABDNOR. All right. I live in a huge condominium. Coming from a town of 350 to 370 residents, I live in a place that's got 435 units and 800 residents. And, then, in the lobby, we have a little store. The prices are a lot higher but I think you find it convenient to go there.

Mr. MOTLEY. Senator, I don't know whether inflation might be higher. You know, prices or the average margins that firms might make or have to make in order to sustain themselves in rural Main Street situations may be higher. As far as inflation itself is concerned, our quarterly economic report indicates that those firms located in your area of the country are less likely to be raising their prices as rapidly as other firms are.

Still, the margin that they may have to operate on because of the higher cost of shipping goods and other factors involved may be more, and people in rural America may be simply paying higher prices for certain goods than people in urban America, especially places like New York City where there's so much competition driving those prices down.

So rather than inflation, it may just be price taking.

Senator ABDNOR. Well, one last question. You were talking about how it used to be that when a building was empty on Main Street, somebody would come along and start a business. And that's no longer happening.

Let's take 2 or 3 years down the road. We finally find a solution through agricultural prosperity and farmers do better; there are still going to be less farmers because they are going out of business. And I think what's left will continue to handle the land.

Do you see a better chance of the little, small town coming back? Or, do you think the damage may be pretty permanent?

Mr. MILLER. Senator, I think, by and large, the damage is done and it's continuing to be done. And we are never going to see a revitalization of the very small town back to what it used to be.

Senator ABDNOR. You won't see implement dealers coming back into business, like car dealers?

Mr. MILLER. No, I don't think so, Senator.

Senator ABDNOR. How about you, Mr. Motley?

Mr. MOTLEY. I would agree with that, Senator.

Senator ABDNOR. That's a sad situation but I'm afraid it's become so easy and accessible to run down the road 40 miles, it makes me think we're all in Congress. We keep using the phrase, "Buy America," and you go down to the garage where you park your car and you never would know there was such a phrase around this country. And I think everyone says we've got to keep our hometown alive and our Main Streets going. And they run down to the supermarket 40 miles down the road.

Mr. MOTLEY. Yes, Senator, I think Mr. Stone may have put his finger on it in his testimony. You simply don't need that many units any longer to service the population and the economy of rural America.

Senator ABDNOR. I guess that's true. Well instead of detaining you people, I just want to thank you all for showing up and your comments.

Thank you for taking time out of your schedule to testify, and you have been a great, great help. I'm really excited about this because, for once, we're really talking about some problems.

When we get this altogether, it's going to be up to this committee to decide how we're going to use this information and all the rural areas are represented by a number of Congressmen and they are not part of this committee. In some way, we've got to disseminate this information to them and get them excited because there's got to be some steps taken.

We are going through difficult times but I still think there can be a bright side to it, and we can turn things around.

You did identify many of the conditions of the Main Street associated to the agricultural economy and it's really in the 5th year, we think, of recession. I look back 10 years ago when I had farmers coming to Washington, but they didn't know what good times they had when we look at it in relation to today.

We do have our problems. But another common theme is, "Let's work together." And I guess it's great to see the Chamber of Commerce, that goes into big cities and probably is where you have your big numbers, but is just as interested in rural America.

And I know that the National Federation of Independent Businesses, what Rural America is all about, and people like you, Mr. Stone. That's also why I brought Mr. Miller in. I just thought he could tell the story of South Dakota better than almost anyone else. You know, each town has their problems. Bob has to deal with all the towns in South Dakota.

I want you to know that we are going to have two more rural hearings just this month. Next Wednesday, May 15, the topic will be "Economic Development." Then, on the following Wednesday, we are having three outstanding panels on "Rural Community Resources, Education, and Health Care." We have shortened some of those areas that I'd like to talk about. So I would advise and encourage all of you to attend those meetings.

I know, for Bob, it's kind of difficult but later, this summer, I'd like to hold additional hearings as well. And so I think we've got a lot of area to cover. I'm looking forward to going up to New York. I always get a real education. I'm amazed, talking about working together, how many things Senator D'Amato and I can get together on. It's amazing. But, he does have a lot a rural areas there in New York.

Well, anyway, I'm going to go vote. I thank all of you very much for attending. You made a great contribution to our theme here. Thank you.

[Whereupon, at 11:55 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

UWEX COOPERATIVE EXTENSION SERVICE • UNIVERSITY OF WISCONSIN-EXTENSION

Department of Agricultural Economics
427 Lorch Street
Madison, Wisconsin 53706 608/262-4963

May 16, 1985

Mr. Dale Jahr
Joint Economic Committee
U.S. Congress
Rm. SD-G01 / Dirksen Building
Washington, DC 20510

Dear Mr. Jahr:

I am sorry that it was impossible for me to testify at your recent hearing on rural main street businesses and the economy. I am sending along a few pieces of information that may be of direct help to you.

I look forward to hearing from you regarding future hearings on community economic development. I have a deep interest in the subject and would be happy to be of assistance.

Sincerely,

Glen C. Pulver

Glen C. Pulver
Community Development
Specialist

mc

Enclosures: Proceedings, Community Economic Development Strategies Conference, March 1-3, 1983
Community Economic Analysis How To Manual
"Tale of Two Cities" article from Rural Development News
Jobs & Income brochure
Community Economic Preparedness Index

PROCEEDINGS OF THE COMMUNITY ECONOMIC DEVELOPMENT STRATEGIES CONFERENCE

March 1-3

Omaha, Neb.

North Central Regional Center for Rural Development

Iowa State University

108 Curtiss Hall

Ames, Iowa 50011

ACKNOWLEDGMENTS

The Community Economic Development Strategies Conference was supported by the North Central Regional Center for Rural Development at Iowa State University and the universities of the planning committee. We are appreciative of the staff support provided by the center, especially Brian Holding, and the contributions of the individuals asked to prepare presentations for the conference. Their contributions are reported in this document.

The North Central Regional Center for Rural Development has pursued a policy of supporting regional research and extension work along with conferences and workshops to promote the sharing of ideas among the faculties of the land grant institutions of the North Central Region. The center has been very supportive of work in rural development. This is especially important since most universities do not have a critical mass of faculty involved in these issues.

No conference can be successfully implemented without the creativity and contributions of several people. This conference was particularly fortunate to have a planning committee that reached quick consensus on general purpose and demonstrated eagerness in assuming and

carrying out the needed tasks. The members of the planning committee were:

- Arnold Bateman, University of Nebraska Panhandle Station, Scottsbluff.
- Jan DeYoung, Small Business Development Center, Iowa State University, Ames.
- Daryl Hobbs, Department of Rural Sociology, University of Missouri, Columbia
- LeRoy Hushak, Department of Agricultural Economics, Ohio State University, Columbus.
- Joe Lanham, Extension Community Resource Development, U.S. Department of Agriculture, Washington, D.C.
- Glen Pulver, Department of Agricultural Economics, University of Wisconsin, Madison; Co-Chair.
- Ron Shaffer, Department of Agricultural Economics, University of Wisconsin, Madison; Co-Chair.

—Ron Shaffer

TABLE OF CONTENTS

INTRODUCTION

Summary

The Community Economic Development Strategies Conference was held at Omaha March 1-3, 1983. More than 70 university researchers and extension personnel participated in the conference where state extension specialists shared new ways of reaching community citizens with education about community economic development and university researchers reviewed some new concepts related to the development of smaller nonmetropolitan communities.

The authors of the first three papers challenged participants with a perspective of the "global" trends that might affect the efficiency of any community's efforts to alter its jobs and income situation. James Howell discussed regional shifts in economic activity and three common developmental mistakes by communities. David Brown extended that discussion by analyzing the economic and demographic shifts in metro/nonmetro counties in the United States since the early 1970s. Glen Pulver suggested that communities had numerous opportunities to change their income and employment base and that these were often not considered.

The next five papers approached the question of how communities can alter their income and employment situation by discussing specific

strategies. John Quinn reviewed elements of how decisions about new business locations were made and how communities could influence that process. Ken Stone reported on current work in Iowa that emphasizes the analysis of changes in retail trade over time and space and how communities can alter the ongoing trends. Sam Crawford described how Ohio was working on creating awareness of the importance of existing businesses and how the local economic development organization could support existing businesses. Al Shapero engaged participants in a wide-ranging review of what causes entrepreneurial events to occur. Gene Summers documented the increased importance of "transfer income" to nonmetropolitan communities and how it was used in the community economy.

The conference closed with presentations from Ken Deavers and Ron Powers on a community economic development research and extension agenda for the 1980s.

In summary, the message from the conference was that: (1) the profound changes in the national economy (structure and geography) and the distribution of population are the impetus for the dramatic changes in nonmetro areas and these must be recognized in local efforts; (2) these are exciting times for community economic development because of the rapidity and magnitude of change that is occurring; (3) there are numerous alternative mechanisms and strategies that nonmetro communities can pursue to improve their job and income situation; (4) the hi-tech bandwagon, while offering some prospects, will not be the source of substantial job and income growth for most nonmetro areas in the future, and (5) nonmetro communities exhibiting creativity and boldness improve their chance to achieve their job and income goals.

"Global" Trends Affecting Local Jobs and Income

In these proceedings, James Howell reviews recent changes in fiscal and monetary policy and their implications for economic growth. Then a brief synopsis is given about the prospects for future regional growth and factors affecting it. Howell offers comments on three developmental mistakes by local communities. First, business really would prefer minimal local government help and that largely in providing a qualified, competitive work force. Second, communities often fail to recognize the significance of agglomeration economies in location decisions and the efficiency of local development efforts. Third, he cautions against the belief that capital availability will overcome all of an area's other economic development limitations.

Howell notes the differences in costs of production among U.S. regions and how that might influence their rate of economic development in the future. While he cautions against overly heavy reliance upon high technology as the avenue for nonmetro economic development, he recognizes the opportunities nonmetro areas have in the development of administrative and headquarter facilities. One of Howell's key ideas is that in all of his experiences across the country he was impressed that no community or area had ever failed because of the "lack of excessive boldness."

David Brown reviews economic and demographic changes that have occurred in nonmetropolitan/rural areas of the United States. Brown demonstrates that the socio-demographic and economic structure of nonmetropolitan areas is approaching that of the rest of the country. He suggests that several forces have lead to the reversal of numerous decades of population loss. While Brown finds that the income position of nonmetropolitan counties has improved, the poorest counties in the United States are still nonmetropolitan. The income position of many nonmetro areas has been substantially improved through transfer payments. He also notes that the dynamics of the changing relationship between federal and local governmental units complicates local governments' response to the increased demands for public services while their resource base becomes relatively more limited.

Brown argues that changes in the relative position of metro/nonmetro areas offers opportunities for areas willing to aggressively address the changes and problems. The recent net in-migration streams have been more educated and "early-retirees" who have much to contribute. The diversification of nonmetro economies leads to stronger and more stable economic prospects. Yet, local institutions will have to respond by accommodating and altering this change to insure the beneficial effects are not lost. Brown concludes with a series of suggestions about what nonmetro areas must do to insure that the benefits of recent trends do yield an improved quality of life.

The paper by Glen Pulver notes that recent high unemployment has stimulated interest in how communities can encourage economic development. He highlights the structural change of the U.S. economy from a goods-producing to a service-information producing economy and its expected importance to future employment opportunities. He shares five interconnected variables that influence the level of employment and income in a community and their positive and negative dimensions. These avenues of altering local employment and income are: (1) migration of employers; (2) change in size of existing firms; (3) births and deaths of firms; (4) location of private expenditures and; (5) public expenditure patterns. Pulver then converts these into a policy framework for five generic strategies of how a community can improve its employment and income situation. The actual strategy pursued will depend upon community goals, values, and resources.

Strategies to Improve Local Jobs and Income

John Quinn in his presentation shares two perspectives of recruiting in the '80s and '90s. The first perspective is that of a quizzical local government official who wonders about the logic, or lack thereof, of some location activities by outside firms. The second perspective is that of analyzing the decision-making process of the firm for three distinct types of decisions -- corporate, facilities, and plant -- and the different factors and actors that come to bear on that decision. He suggests research is providing insights about characteristics of rural communities that have been relatively successful in attracting employment change. He contends that innovation, imagination, and persistence characterize the states and communities most actively engaged in industrial recruitment.

Sam Crawford uses a series of Ohio case examples to demonstrate that rural communities can promote job and income creation through the support and encouragement of new firm formation and the expansion and improvement of the efficiency of existing firms. The evidence that he assembles suggests that rural communities need to be supportive of this form of economic activity and not overlook it in the "hoopla" to attract new firms from outside the community. He indicates that extension programs need to create awareness of existing business retention and expansion and business creation possibilities. Furthermore, these programs need to work at both the community and business level. At the business level, education programs will emphasize management education. This requires that we exercise creativity in delivery methods as well as hearing what the clientele indicate they want.

Al Shapero's discussion cautions us to be careful about the variety of uses of the term entrepreneurship, and suggests that we should be more concerned with entrepreneurial events than people when examining this issue. He reminds us that entrepreneurship is a long-term concept, and not an answer to short-term development problems in a community. Shapero offers that development of a community is more than just more jobs and income, but needs to include an ability by the community to adapt to events, exhibit resilience, creativity, initiative, and diversity to meet changing conditions through time. He suggests that these are also characteristics generated by entrepreneurship. Shapero reviews the forces that might cause people to start a new business. He argues that the choice of starting a business is the product of the perceptions of desirability and feasibility. Finally, Shapero links the utilization of entrepreneurship to community economic development, and how the two processes are symbiotic. In particular, he notes the supportive role that local financial institutions can play in company formation. He concludes with a cautionary statement about the success of political-legislative and administrative attempts to stimulate entrepreneurship.

Ken Stone describes an Iowa extension program that conducts a trade area analysis of rural communities. He notes the integral importance of a viable trade sector to capturing the effects of any community economic development effort. He describes the data that is required, the form of analysis, and the manner of presenting information to community groups. A key element of the analysis is to give an idea about changes over time in that community and other nearby areas. This includes actual and potential sales as well as the number of customers attracted. Such a program requires access to sales data over time and by municipality.

Gene Summers and Thomas Hirschl in their paper demonstrate that demographic changes occurring in U.S. nonmetropolitan areas can have significant implications for community economic development. In particular, they note that significant local income and employment impacts can result from the inflow of cash transfer payments and that local markets are very responsive to these payments. They caution people to recognize that transfer payments in the form of public assistance payments are only a very small portion of personal income of any region of the nation. Relatively larger amounts are in the form of retirement/pension funds. Furthermore, there is a high correlation between the inflow of transfer income and dividends, interest and rents. Summers and Hirschl close their analysis with a discussion of some strategies communities might pursue in capturing transfer payments, either as consumer spending or capital funds.

Agenda for the 1980s

Ken Deaver's paper explicitly recognizes that the "rural renaissance" will lead to a significant shift in the research agenda for the 1980s. More than a population turnaround, the "renaissance" also includes changes in the economic structure of nonmetro areas and increased complexity of local government services and operations. He notes that the continued presence of "rural fundamentalism" may have little to offer policy makers during the 1980s. In reviewing the diversity of rural areas, Deavers points out that the integration of rural areas into the rest of the U.S. economy and society brings with it some problems such as crime, etc. that formerly were thought to be solely urban issues. He notes that from an equity perspective the problems of poverty and housing, while reduced substantially in the past 20 years, are still major difficulties in rural areas. While nonmetro problems are still substantial, the rationale used in the '50s and '60s to argue for rural development programs may no longer be appropriate for the conditions of the '80s. Deavers suggests that the efforts to sensitize policy makers to the heterogeneity of rural areas may have caused the inadvertent outcome that there is no commonality in rural areas that would lend itself to rural development programs. Finding the commonality among nonmetro places and problems for policy formulation will need to be a major research effort. Deavers suggests that one of the key research issues of the 1980s is to understand the distributional impacts upon areas and groups of various programs and social economic changes. He argues that while rural development research needs to be more analytical, there continues to be a need to monitor changes and conditions so national policy makers are kept aware of nonmetro areas. The final element of his research agenda is more modeling of the causal factors and policy variables affecting nonmetro well-being.

Ron Powers, in developing an extension agenda for the 1980s, begins with a brief review of the conditions of the mid-1950s when rural development first became an item on the national agenda. He compares the type of analysis and extension work that was done in the '50s with the conditions of the late '70s and early '80s and notes that two recent extension documents place community economic development to the forefront of the extension agenda for the 1980s. Powers emphasizes that economic development is a legitimate component of the agenda for extension programming in the 1980s, and that extension administrators need to recognize the importance of this programming to an integrated, comprehensive extension program. He believes that our experience in public policy programming becomes an excellent foundation on which to build community economic development education efforts. For example, good extension public programming is needed to help states and communities keep the issues of high technology and tax policy revisions in proper perspective. Furthermore, he feels that there is a need for extending to decision makers the expanding collection of community economic analysis tools that we are developing. And finally, he reminds us that the extension system must provide viable and creative community economic development education programs.

ECONOMIC DEVELOPMENT OF THE FUTURE: MYTHS AND REALITIES

James M. Howell*

At the outset of my remarks, I want to emphasize that I personally believe community economic development is where the action is, and this will continue to be the case over the balance of the decade. And increasingly, as this development process continues to evolve and mature, it will be important for there to be greater bank participation. I would also hope at your second annual conference we can find a way to get more bankers to join you in these deliberations, for they are pivotal to the economic viability of a region.

A great deal of my work in economic development relates to my activities at Bank of Boston. Bank of Boston has assets of about $20 billion, and has offices in 35 countries around the world. As the bank's chief economist, I have had conversations with business and government leaders--in all regions of the country--on the issue of community economic development.

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*James M. Howell is senior vice president and chief economist for the Bank of Boston.

Today, I want to make three basic points about the forces that shape community economic development. First, I will talk about the national economy and comment on the issue of growth disparities from a banker's perspective. Second, I will discuss three of the most common developmental mistakes that are made in dealing with the business community. Finally, I will define several of the opportunities and challenges in the Midwest and the High Plains.

General Economic Conditions and Forecasts

In 1980, one could accurately describe the U.S. economy as follows: the United States then had the highest percentage of obsolete plant and equipment, the lowest ratio of capital spending and the lowest productivity and savings growth of all the industrialized countries in the world. And in early 1981 the U.S. Bureau of the Census reminded us that median after-tax real income declined 5 percent. That is the first time real income has declined over the course of a decade since the Industrial Revolution began in New England during the 1830s.

To address these economic difficulties, President Reagan put into place the imaginative Economic Recovery Act of 1981 which provided deep tax credits to business, basically in the form of accelerated depreciation and safe harbour leasing. As I traveled around the country in the fall of 1981 and the spring of 1982, I was confident enough to tell the business community that finally the proper emphasis had been accorded to capital formation in this country and that the country was headed into a period of nearly unparalleled prosperity and growth.

However, along the way the Federal Reserve intervened and pursued an extremely tight monetary policy. When Paul Volcker became Chairman beginning on October 6, 1979, the Fed abandoned what economists call Fed Funds management in favor of Reserve Targeting. In the press release announcing this policy change, the Federal Reserve told us that "they were going to pay less attention to interest rates than they have in the past..." That turned out to be the understatement of the century. During the period January, 1980 through September, 1982 the prime rate changed 76 times for a cumulative variance of 4,300 basis points, or 43 percentage points. While the efforts to achieve price stability have been unusually successful, the past three years have been the period of greatest financial and economic instability in this century. As a result of the monetary instability, business investment never materialized, and in 1982 the Congress repealed many of the key capital formation parts in Economic Recovery Act of 1981.

Consequently, we have been forced to downwardly adjust our forecast: the U.S. economy (real GNP) will grow 10-11 percent over the next three years. The President's budget forecasts 11.1 percent and the Congressional Budget Office says 10.9 percent. This is the first time in years that the Congressional Budget Office, the Administration and many private economists have all agreed on a forecast! The consensus is that the next three years will be a time of extraordinarily anemic economic growth--largely because of the failure of business investment to materialize.

If you compare the anticipated 10 percent or 11 percent growth over the years 1983-1985 to the three years following the 1969-1970 recession, and the three years following the 1974-1975 recession, you find that the U.S. economy grew in each of those three-year periods at an average cumulative rate of 15.4 percent (in real terms). So all of us are expecting about 40 percent less in growth than has occurred during earlier recoveries.

The outlook for prices is good, if for no other reason than excess capacity, but we will continue to have unacceptably high unemployment. Indeed, I do not believe that the unemployment rate will fall nationally below 8 percent until 1985—unless Federal Reserve policy is changed.

Regional Growth Disparities

Looking back to the 1980-82 recession, one might ask, what pulled our country down? A number of forces pulled the economy downward into the recession--three were most significant. First, the output of autos and steel in the Great Lakes area declined significantly—due to foreign competition and/or the failure of the domestic auto producers to perceive consumer preference. Second, interest rates rose to very high levels and, as a result, approximately 2.5-3.0 million housing units that should have been built over the past three years were not. From a regional perspective, it is interesting to note that during 1975-80 nearly 50 percent of all the new houses started in the U.S. were in three states: California, Texas, and Florida. And our cynical experience here is clear; namely, that whenever interest rates exceed the 12-14 percent range, the housing industry in these three states is severely impacted. The final major reason for the recession was the softening of energy prices which dramatically affected labor markets on the Texas Gulf Coast.

Let's turn now to the recovery period and beyond. Certainly residential construction will recover. Those individuals who are in the residential construction business appear to have an insatiable desire to build all the housing units for which they can secure construction financing. Indeed, Martin Feldstein, Chairman of the Council for Economic Advisors, often argues that moderately high interest rates are desirable, because it is the only way to insure that housing starts will fall off so that scarce capital can be diverted to business capital spending. So, the housing industry will recover and is, in fact, already rebounding with million new housing starts already at an annual rate in excess of 1.5 million units. Again, the significant impact of that recovery in housing will be felt primarily in three states.

There will be a recovery in the oil and gas industries—probably 24 to 36 months from now—after all present price adjustments are sorted out and deregulation works its way through the system. This will aid the energy producing regions of the economy.

The economic outlook for the Great Lakes area for the balance of this decade is far from secure. There seems little basis for economic optimism. This stagnation appears to be a foregone conclusion for this decade due to the condition of the auto and steel industries.

The reasons are straightforward—too much unionism and a wage structure that is significantly out of line with the rest of the country. Simply put, the $15-$17 prevailing wage rate precludes any meaningful economic recovery in Ohio, Illinois, and Michigan until this issue is addressed. I would add that I am also concerned about the adverse consequences of this economic stagnation for the region's state and city financial systems.

As for the economic outlook for the High Plains/West Central states, geographic isolation is your barrier to progress. The West Coast will grow vigorously—as it continues to benefit from the most balanced state economy in the United States. To add to the economic diversity, California will be the first minority/majority state by 1990. Unquestionably, this will obviously affect the political character of where California is headed.

The New England area has undergone a profound economic revitalization. During 1968-75 the region lost 252,000 manufacturing jobs—one in five—and almost all to the Sunbelt. By 1975, in Massachusetts, with 5.6 million people, we had 1.25 million on welfare and a 15 percent unemployment rate. By 1980 the regional economy had been essentially rebuilt, and rapid economic growth was widespread and commonplace. The recovery that ensued was built on high-technology development. From 1975 to 1980 the region gained back more than 225,000 manufacturing jobs. In other words, we were losing manufacturing jobs at an average annual rate of 36,000 in the first period and gaining them back at an average annual rate of 44,000 in the second. That is indeed impressive economic recovery.

The Mid-Atlantic states have not participated in this revitalization in manufacturing. During that first period, 1968-75, the Mid-Atlantic states lost 880,000 jobs. Yet, during the 1975-80 period that region has only gained back 80,000 manufacturing jobs or 10 percent of the jobs that were lost. Furthermore, the continuation of high manufacturing costs means that the region's outlook is far from secure.

Three Common Developmental Mistakes

A fundamental working knowledge of these economic realities is important because it will go a long way to shape and constrain the environment in which you will be operating. Now I want to point out the three most common developmental mistakes that I believe you all make in dealing with the business and banking community. These are views that have been developed from more than a decade of working with the business community and trying to understand their needs for new facility locations.

The first developmental mistake is not understanding the nature of business demands from government and community developers. Business demands are very simple; first and foremost is the desire for nonunionized labor with a strong motivation to work at a competitive wage (it varies from industry to industry, but a good rule of thumb is $7-$10 an hour). On this labor-market issue I would only add that in interview after interview in urban areas throughout the country, businessmen have repeatedly told me that they would prefer to operate in areas with soft labor markets than in those with very low unemployment. Their rationale for this view is that soft labor markets allow them the wiggle room to take care of the surge demand for labor as their product demands rise.

If there is any formal occupational training to be done, business expects the federal or state government to pay for it. Some state training programs have worked quite well—the South Carolina technical educational program is a case in point—and the CETA Title VII program has also been effective over most parts of the country. And looking ahead, there is great hope on our part as economists working with businesses that the Job Training Partnership Act (JTPA) will be even more successful.

In addition to these demands businesses also wished that government would simply stop meddling in their affairs. In short, business does not expect government to do very much. Time and time again, I have been reminded that business would prefer government to do less rather than more to help them. Thus, one of your common mistakes is to attempt to do far more for business than is absolutely necessary and expected.

In their dealings with government, it is important to note that business prefers first to deal with federal government, second with local government, and lastly with state government. The level of government that businesses appear to be least comfortable with is state government. Thus, we may conclude that business-government relations may well be evolving into a period of a considerable tension because of the shift in power within the federal system as President

Reagan's New Federalism policies increasingly put state government on center stage. In businesses' minds the New Federalism can only lead to the fragmentation of the regulatory system.

As a direct result of the cuts in the federal grant-in-aid programs, almost all of the states today are facing operating deficits. As a result, there will be a major round of state tax increases in the 1980s and businesses fear they will be asked to pay for most of it. Thus, it is obvious that the states that manage their tax policies in the mid-1980s in such a way that they can continue to stimulate business investment are the ones that will achieve higher income and employment growth.

Finally, business expects some tax incentives, but I probably have never met a businessman who would change his location because of a tax subsidy. Basically, the business community does not understand why government continues to push so many tax subsidies as the prime means to achieve community development. They are a loss to the revenue stream of the community and the state that gives them. It really misfocuses what is central to the business/government dialogue, which is the availability of skilled labor at a competitive wage. And yet, I suspect there has not been a conference on community economic development in the United States in the last 30 years that did not have one panel on the role of tax incentives on business locational decisions. Tax incentives will make businessmen feel better after they have located in a community, but they won't get them there.

The second mistake made by most economic development specialists is not understanding agglomeration economics. Hence, you waste a lot of time chasing industry that you will not attract. Agglomeration simply means the coming together of a wide range of economic and financial factors that work favorably to produce a cost-effective investment environment for special industries. The ultimate agglomeration now is in Boston. We have the venture capital market, aggressive banking, the higher educational system--65 colleges and universities in the greater Boston area alone--to produce a supply of entrepreneurs, sophisticated machine shops and finally skilled labor in manufacturing. These are the factors that enabled high tech industries to be created and thrive in New England.

Building a more complete understanding of agglomerations should lead to a sensible program to identify the industry backward linkages to support your primary export-base industries. What I am discussing here is especially relevant to your industrial recruitment efforts. To be more specific, once you have selected the industries that you feel will be part of your growth sector--the industries from which your region/sub-region-rural area will grow--it is now possible to determine what backward industry linkages have to be in place to insure that growth will take place in an orderly process. This is not a hit or miss basis. We think it is managing economic growth in a rational manner. And it shows the highly interconnected nature of industrial growth.

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The third mistake made by most development specialists is their belief that increased capital availability will compensate for shortfalls and weaknesses in other factors of production such as market access and labor availability. I have never fully understood why developmental specialists feel that capital, if it were generously available, would compensate for other factors of production. I assume that you think capital is the factor that constrains economic development because you don't understand the manner in which capital markets perform.

Certainly, we can all agree that capital is the most mobile of all factors of production. Yet, I never cease to be amazed at the extent to which people blame capital when in fact it is the other factors, management, aggressiveness, etc. that make the real difference. In reality, capital flows to profitable business projects—not the other way around. So my advice is to concentrate on project development and then see how often the capital financing takes care of itself.

Opportunities in the Midwest and High Plains

I believe you have a great deal of opportunity here. The work Dr. Ben Stevens (Regional Science Research Institute) has done with production costs shows very clearly that the West North Central region has manufacturing operating costs that are below the national average, while in the East North Central region (Michigan, Illinois and Ohio) the production costs are well above those of other regions. My point here is that there are significant differences in costs between your two regions and this will lead to differential manufacturing growth. Wages in the Great Lakes area are fully 7-8 percentage points above the national average and, as previously stated, this clearly makes this region unattractive for fresh manufacturing investment.

On the other hand, the High Plains area, as contrasted with the Great Lakes area, has a very promising future for some facility location, both for manufacturing and administrative offices. The Citibank operation in South Dakota underscores this point. Administrative offices can now be placed in isolated locations that heretofore were thought of as largely unattractive for economic development. And when one couples this reality with the cost-cheapening pull into these areas, business interest becomes quite strong. A number of special factors come into plan to pull business to these areas. First, there is a favorable supply of clerical workers in those areas. Second, aggregate business costs are 20 to 30 percent cheaper.

The push out of large cities where these offices presently are located is due by and large to the deterioration in public education. It is a sorry state of affairs to acknowledge that fully two/thirds to three/quarters of all high school graduates that come into our bank for jobs cannot complete the employment application! How are they going to hold a job that requires them to read, let alone write, when they cannot follow basic directions or make the simplest mathematical calculations? The differential quality of public education has now become a major factor in the locational decision process.

For technology-based companies, don't confuse parenting with mothering. The parents of the high tech companies are in Massachusetts and California. That is where we have agglomerations to start new technology-based companies. During the 1970s roughly two-thirds of all the venture capital investments in the United States were in these two states. Your region simply does not have the combination of factors to compete with the starting of high-tech businesses. But you can mother them. I submit that is really what the Research Triangle in North Carolina has learned very well; namely, give businesses the minimum support externalities and mother them. Over the long run they will establish operations in the Research Triangle and they will stay with you.

Conclusion

What has impressed me the most in my community economic development work is the role which attitude plays in this process. I know there are a few cities that have had very limited economic futures. But the vast majority of communities have within themselves and within their grasp a considerable capacity to develop. It is attitude that ultimately makes the difference. When I run into a banker who boasts that he is satisfying all of his loan commitments to take care of all deals that come his way and that he is generating economic development—privately I don't believe him. The same is true when an economic development specialist comes to me and tells me he is effectively accessing all the UDAGs he needs and that he doesn't need any more help. I don't think that happens. All of us can benefit from each other's experiences.

Over the years as I have worked in community economic development two factors stand out as particularly important: first, attitude is critical; second, the most effective way to undertake economic development is to learn from others' experiences; that is, to imitate others' successes. You do not have to initiate every new idea that comes down the pike in your area.

Finally, I have never seen a rural area, a cluster of rural counties, or a city in America that failed because of excessive boldness. There are some real opportunities in this part of the country if you try to do a limited number of things and you approach them with the right attitude.

SOCIODEMOGRAPHIC TRENDS AND THEIR IMPLICATIONS FOR ECONOMIC DEVELOPMENT

David L. Brown*

Introduction

Rural America is vastly changed from the recent past.[1] Three general themes characterize this change: (a) rural disadvantage, as measured by population, employment, and income growth, is substantially reduced—in fact, sociodemographic and economic growth has favored rural areas in recent years; (b) rural sociodemographic and economic structure has come to resemble that of urban areas; and (c) relationships between levels of government are changing rapidly with a decentralization of responsibilities to smaller, more rural communities. This paper reviews changes in the rural environment and discusses implications of such changes for preserving the quality of life. A basic theme is that both opportunities and problems are associated with societal transformation. Successful adaptation depends upon

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[1]Rural and nonmetropolitan are used interchangeably in the paper.

capable institutions, effective mobilization of all community resources—human, economic, natural and institutional, and research-based information provided in a form useful to rural citizens and their leaders and decision makers.

Changed Rural Environment

Demographic Change: Population Decentralization:

For the first time in this century, the rate of population growth of nonmetropolitan areas exceeds that of their metropolitan counterparts (Table 1). Between 1970 and 1980, nonmetropolitan counties grew by 15.8 percent compared with 9.8 percent for SMSA counties. The reverse was true during the 1960-70 decade when metro areas grew by 17.0 percent and their nonmetro hinterlands by only 4.4 percent. The 1970-80 nonmetro growth advantage holds in remote and completely rural areas as well as in areas that are partly urban or dominated by cities nearby. This dramatic turnaround is a product of reduced outmigration as well as of increased immigration.

The metropolitan-nonmetropolitan "turnaround" is better understood in the context of two other decentralization trends—continuing suburbanization within metropolitan areas themselves, and regional redistribution from the densely populated North to the less densely populated South and Southwest. Never before has the American population experienced a generalized decentralization at all three levels. Moreover, numerous other highly industrialized and urbanized nations are currently experiencing population decentralization.

Table 1. Population change by metropolitan status and size of largest city

Characteristic	Population				
	Number			Percentage Change	
	1980	1970	1960	1970-80	1960-70
	Thousands			Percent	
Total	226,505	203,301	179,323	11.4	13.4
Metropolitan[1]	163,503	148,877	127,191	9.8	17.0
Nonmetropolitan	63,002	54,424	52,132	15.8	4.4
Nonmetropolitan					
Adjacent counties[2]	32,901	28,031	26,113	17.4	7.3
Nonadjacent counties	30,101	26,394	26,019	14.0	1.4
Nonadjacent counties					
With city of 10,000 or more[3]	13,642	11,910	11,132	14.5	7.0
With no city of 10,000	16,458	14,484	14,887	13.6	-2.7

[1] Metropolitan status as of 1974.
[2] Nonmetropolitan counties adjacent to Standard Metropolitan Statistical Areas.
[3] Counties with a city of 10,000 or more population in 1970.

Source: U.S. Census of Population of 1970 and 1980. U.S. Bureau of the Census.

Prepared by:
Population Studies Program Area
Economic Development Division
ERS, USDA

This has led many social scientists to hypothesize that population decentralization is part of a natural process of advanced societal development and not merely the result of isolated, unique, unrelated circumstances.

Space and time do not permit a full discussion of the determinants of the metro-nonmetro turnaround. The reasons for the turnaround are diverse and hard to generalize over the entire U.S. landscape, but some root causes are identifiable: (a) mechanization and organizational changes in agriculture, (b) industrial development, (c) modernization of life (including transportation and communication), and (d) residential preferences of the population. These factors worked to the disadvantage of rural areas for most of this century. However, the cumulative effect of 20 years of slow but steady rural change has narrowed differences between urban and rural areas, although some important differences persist.

To begin with, labor supply and demand in agriculture have come into balance and the potential for further farm outmigration as a source of urban growth is now greatly reduced. Secondly, the economic basis of rural life has diversified with trade, services (including government), and manufacturing being the primary employers. This transformation of the rural economy has retained many workers in rural areas who otherwise might have migrated to city jobs, and it has attracted metro area workers into the rural workplace. Thirdly, the stereotype of rural areas as backward and isolated is no longer accurate. Electrification, telephone service, all-weather roads, cable TV, and centralized water and sewer systems have gone far to modernize rural life. Finally, residential preference surveys have demonstrated a great discontinuity between the size of current place of residence of many Americans and the size of the place they prefer. Economic diversification and community modernization have reduced structural constraints and consequently many persons have moved from urban to rural areas, or they are remaining there to begin with.

Thus, the decades-old loss of rural citizens appears to be over, but it must be pointed out that rural America is too diverse for this generalized situation to fit all locales. Over 450 nonmetropolitan counties (about one-fourth) lost population during 1970 and 1980. These counties are mainly located in agricultural areas of the Great Plains and Corn Belt. In most cases, current decline is a continuation of previous loss and in many cases continuous outmigration of younger persons has led to a distorted age structure which tends to produce more deaths than births—natural population decrease.

Economic Change: Industrial Diversification

The industrial mix of the nonmetropolitan labor force has been substantially altered as a result of significant increases and decreases in various industrial categories. In 1820, over 70 percent of all U.S. workers were employed in agriculture. One hundred years later in 1920, this figure had declined to a little over a quarter and by 1940 only 17 percent of the labor force was in farming. By 1979, the most inclusive definition of agricultural workers (wage and salary, self-employed, and unpaid family) added to only 3.4 percent of the U.S. workforce. Indeed, even in nonmetropolitan areas, this percentage has declined from almost 14 percent in 1950 to 8 percent in 1979. In contrast, manufacturing now accounts for nearly one quarter of all nonmetro workers, trade and government account for over one-sixth of the labor force each, and services account for 11.0 percent.

Importantly, the industrial profiles of metro and nonmetro America are now remarkably similar. Manufacturing, construction, transportation, trade, and government comprise very similar shares of both metro and nonmetro employment. Services and finance remain somewhat higher in metro counties and extractive industries are still a greater part of nonmetro employment. (Table 2)

Several other aspect of nonmetro employment differ markedly from anachronistic stereotypes of the rural economy as agrarian dominated, slow growing, and comprised of undersized castoffs from metropolitan centers. Research on nonmetro manufacturing activity is illustrative of this point. Nonmetro counties gained a larger share of the nation's manufacturing employment growth during 1969-79 than their metropolitan counterparts. Manufacturing employment increased 1.5 percent annually in nonmetro areas, while remaining unchanged in metro counties (Bluestone, 1982). This growth appears to have been accomplished through expansions to already existing plants, not because firms moved their operations to nonmetro counties (Miller, 1980). Moreover, nonmetropolitan counties have benefited from a broad mix of manufacturing industries, not merely slow growth castoffs from large

Table 2. Metro and Nonmetro Employment by Industry Group, Annual Average 1979

Industry Group	Nonmetro		Metro	
	No. (000)	Pct.	No. (000)	Pct.
TOTAL	29,916	100.0	67,029	100.0
Wage and Salary Workers	25,697	85.9	62,256	92.9
Agric., Forestry Fisheries	886	3.0	565	.8
Mining	502	1.7	340	.5
Construction	1,505	5.0	3,107	4.6
Durable Manufacturing	3,688	12.3	9,443	14.1
Nondurable Manufacturing	3,089	10.3	5,421	8.1
Transportation, Communication, Public Utilities	1,405	4.7	3,884	5.8
Wholesale and Retail Trade	4,778	16.0	12,770	19.1
Finance, Insurance, Real Estate	998	3.3	4,201	6.3
Private Household	476	1.6	764	1.1
Services	3,346	11.2	11,425	17.0
Government	5,033	16.8	10,336	15.4
Self Employed Workers	3,762	12.6	4,471	6.7
Agriculture	1,235	4.1	346	.5
Nonagriculture	2,527	8.5	4,126	6.2
Unpaid Family Workers	457	1.5	301	.5
Agriculture	251	.8	53	.1
Nonagriculture	206	.7	249	.4

Source: Current Population Survey, U.S. Bureau of the Census.

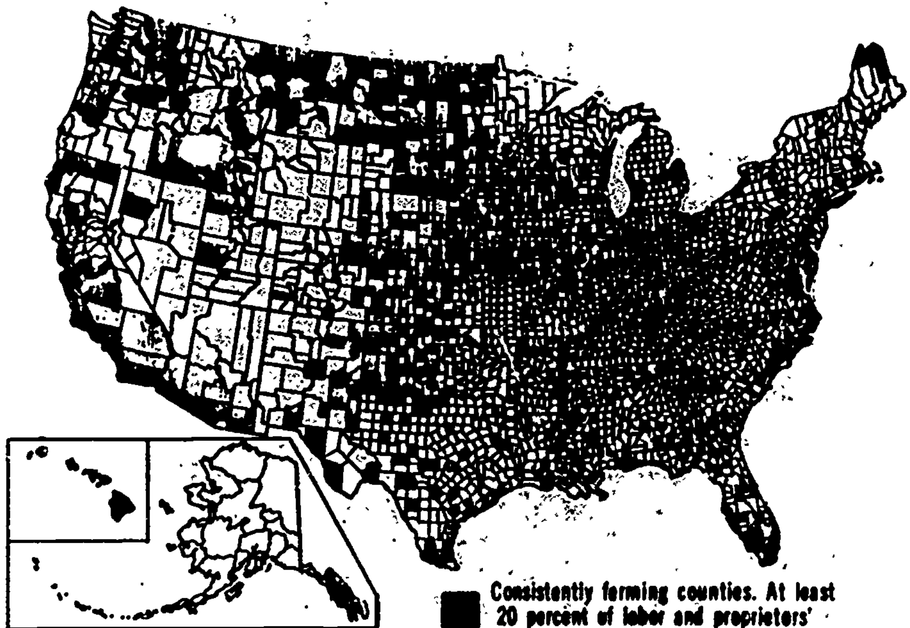
metro centers. Another somewhat counter-intuitive fact about nonmetro manufacturing is that average plant size is large in nonmetro areas than in SMSA's (63 and 42 workers respectively). In fact, of 20 major manufacturing industries, 13 had larger average plant sizes in nonmetro counties in 1976 (Bluestone and Williams, 1982).

Of course, dependence on agriculture as a primary source of employment and family income has not disappeared from the American scene. During 1975-77, 684 counties, mostly in the Corn Belt and Great Plains, derived at least 20 percent of proprietors' and labor income from agriculture. However, over 2,000 such counties, two-thirds of the U.S. total, had a similar level of agricultural dependence in 1950 (Hoppe, 1982). And farm family income is now typically a mixture of both farm and nonfarm contributions. Off-farm work is more prevalent among operators of small farms, but some operators of all size units report off-farm employment (Carlin and Ghefi, 1979). (Figure 1)

Income Change: Leveling of Differences—Persistent Gaps

The metro-nonmetro income gap has been substantially reduced from previous decades when dramatic differences in socioeconomic status were a root cause of rural outmigration. In 1950, nonmetro median family income was only two-thirds of the metro median. By 1980, median family income had increased to over $18,000, nearly 80 percent of the metropolitan figure. Moreover, the latest U.S. Census showed that the number of nonmetropolitan people with poverty level incomes

CONSISTENTLY FARMING AND OVERSHADOWED COUNTIES, 1975-77



Consistently farming counties. At least 20 percent of labor and proprietors' income from farming.

Overshadowed counties. In top 20 percent of U.S. farming counties, but farm income overshadowed by income from other sources.

Other counties.

Figure 1.

declined from 11.9 million (19.2 percent) in the 1970 to 8.6 million (15.4 percent) 1980. This improved situation relates to increases in educational attainment of the nonmetro population, industrial growth and diversification described earlier, off-farm employment by farm family members, increased labor force participation by rural women, and reduced discrimination against racial minorities (Brown and O'Leary, 1979; Brown, 1978; Zuiches and Brown, 1978).

Most improvement in the metro-nonmetro income gap occurred during the 1960s. The gap has remained constant at about 20-25 percent since then. Moreover, there is evidence that racial differences in income continue to be greater in less urbanized areas (Brown, 1978), and that rural areas with very high minority populations have not shared equitably in rural economic growth (Marshall, 1974). Also, data from the Current Population Survey indicate that the rate of increase in the female labor force participation rate has declined in nonmetropolitan areas since the middle 1970s, increasing the metro-nonmetro gap in participation, and reducing the growth of an important component of total family income in nonmetro counties

(Schaub, 1981). Another indicator of the persistent gap between metro and nonmetro income is the fact that almost all of the poorest counties in the U.S. are nonmetropolitan. In addition, most of these poor counties have been in the lowest income category continuously since 1950. Most of these persistent low income counties are located in the Southeast, in Appalachia, and in the Mississippi Delta. In these cases, the condition of low income is associated with a high percentage of minority population, or white Southern highlanders, low levels of community economic development, and inadequate social and physical infrastructure.

Government transfer programs have become an important source of income in both metropolitan and nonmetropolitan areas. Were it not for these programs, the size of the rural poor population would be almost double the current number (Smeeding, 1983). Transfer payments are particularly important for those low income persons who suffer from work-limiting disabilities or who are "too old" to work. Employment growth will not directly ameliorate the economic condition of such persons. However, an often neglected fact is that many low income nonmetropolitan families have substantial work effort but are still unable to earn enough to rise out of poverty. In 1979, almost a quarter of nonmetro poor households contained at least one full-time worker and a third of all poor households had two or more members in the workforce. Labor market solutions including education, training, and upgrading the industrial mix of employment are essential for improving the economic condition of such people.

Governmental Change: Decentralization of Responsibilities

The Reagan administration proposes to decentralize public responsibilities to lower levels of governmnet. Categorical aid programs, including those that support targeted economic development, public and private infrastructure, human capital development, and transfer payments to individuals and families are under review. A block grant approach is generally favored in which aid is distributed to states on a formula basis for use in broad categories of activity that small cities must find new ways to meet demand for public services and facilities. This is further complicated by a socio-political climate which often favors constraints on local taxation.

Implications of Environmental Change

Opportunities Associated With Environmental Change

Demographic growth and economic revitalization of rural America have improved its human and economic resource base. The characteristics of nonmetro in- and outmigration are similar, but the inmigration stream has been so much larger during the 1970s and of such higher status than the indigenous rural population, that inmigration has contributed to an improvement in the income, educational, and occupational levels of the nonmetropolitan population.

This improvement is especially dramatic when compared with the human resource loss that would have occurred had income, education, and occupation-specific migration rates of previous decades prevailed. For example, Zuiches and Brown (1978) demonstrated that between 1970 and 1975, nonmetropolitan areas gained almost 700,000 adults with at least a completed high school education. Only 60,000 persons with this level of education would have been added to the nonmetropolitan population had the 1965-70 education-specific rate of mobility prevailed for 1970-75 (in fact, net outmigration of college graduates was expected.)

Migration of older persons, particularly retirees, adds to the human resource base in rural areas. Older persons constituted less than one-fifth of all net migration gains in nonmetro areas during 1975-80, but older migrants tend to concentrate in specific areas. Traditional sun belt retirement areas are typical destinations, but so are such unlikely areas as northern Wisconsin, Michigan, and the Ozarks.

Inmigration of older persons can place substantial new demands on a community's ability to provide essential services, but it also brings benefits. Many retirees are relatively young (55-65 years), in good health, and highly educated. Many come with a lifetime of experience in professional and technical matters, and many have held responsible leadership positions in business and in the community. They stimulate the economy, bring sources of income with them, and thus depend less on employment for economic support. And, retired persons generally have ample time for community activities.

The benefits of economic expansion and diversification are fairly evident--more and better jobs, increased tax revenues, improved base of support for physical infrastructure. More and better jobs have attracted migrants and have helped retain longer-term residents who might otherwise have moved away. Diversification of employment helps to guard against the economic vicissitudes of a narrow industrial base. Diversification has also probably contributed to improved rural income. Recent research has shown that almost one-third of the metro-nonmetro salary difference for men was due to the different occupational mix of employment in similar industries between metro and nonmetro areas (Nilsen, 1978). Women's employment is important in and of itself and as a contribution to total family income. And off-farm work has probably stabilized the agricultural economy, permitting some farm families to retain their agricultural operation and residence.

One can only speculate about the benefits associated with the "New Federalism" program because it has yet to be enacted by Congress. The expected benefits flow from a philosophy of government which places the responsibilities for meeting basic human needs at the local level. Theoretically, this will lead to a more responsive government--community needs will be more accurately reflected in programs developed and administered at the local level. The basic theme is that local circumstances, not national circumstances, will directly affect an individual's life chances. Therefore, amelioration of social problems should be a local responsibility, free of national mandates, federal regulations, and federal standards.

Problems Associated With Environmental Change

Demographic, economic, and governmental change are two-edged swords. The opportunities enumerated earlier do not come cost-free. Rapid population growth, particularly if it is unanticipated or breaks with past trends, can create severe adjustment problems. Population change has a broad impact in the community, but its effects are most directly experienced in the provision of services, the adequacy of community facilities, and in competition for natural resource, especially land and water.

During the 1970s, migration was the primary determinant of differences between areas in the rate of population growth. The community level effects of migration depend on its net direction and on its socioeconomic composition. In the majority of nonmetropolitan counties, net inmigration has been the case, but as discussed earlier, nearly 450 nonmetropolitan counties continued to lose populaton through migration. Moreover, the composition of migration streams differs among aress. In some places, inmigration is heavily concentrated in the older groups while in others young families make up the bulk of newcomers. (Figure 2)

Changes in population size and composition have a direct bearing on the demand and need for services, facilities, and economic opportunities; and varying demographic trends place distinctly different pressures on the community. Communities experiencing net inmigration can expect to receive a larger number of school age persons, younger working age persons, and, in some instances, retired persons. Conversely, communities experiencing net outmigration can expect to lose younger households and with them, numerous school and working age persons. They can expect their populations to become relatively older and to be composed of smaller households.

As a consequence, communities experiencing inmigration will be pressed to increase support of educational resources and to provide more and larger housing units, water, sewers, utilities, and other

INCREASED NEED FOR:	• Educational resources and facilities • Day care facilities • Pediatric and medical care • Recreational and other services oriented to individuals	• New housing units • Water, sewer, utilites trash collection, fire protection • Residential roads • Sidewalks	• Economic expansion and/or commuting to outside jobs • Investments in community infrastructure • Commercial credit • Potential volunteer workers to help the elderly
Growth Through In-migration a. Young adults and children b. Elderly	 Becomes Younger Becomes Older	 More, Larger More, Smaller	 More Works More Potential Workers No Direct Impact
Population Change	Age Composition	Households	Labor Force
Decline Through Out-Migration Young adults and children	Becomes Older	Fewer or Constant Number Smaller	Fewer Workers Fewer Potential Workers
	INCREASED NEED FOR: • Geriatric medical services • Public transportation • Nursing homes • Feeding services • Social programs	REDUCED NEED FOR: • Large houses INCREASED NEED FOR: • Smaller housing units and/or apartments CONSTANT NEED FOR: • Water, sewer, utilities, trash collection, fire protection	NEED TO: • Contract economic activity • Train local workers • Import outside workers Excess plant capacity and/or underutilized public infrastructure may occur

Figure 2. Some alternative outcomes of in-migration and out-migration.

services associated with housing. They will need to expand their economic base to provide more jobs and allied manpower services. Competition between residential and other users (agriculture, recreation) of land and water will force up the price of these resources and can be a potential issue for community conflict.

On the other hand, communities that are losing population will have a reduced need for educational services, new housing units, and new jobs. However, as their populations age, communities may face an increased demand for geriatric health services, public transportation, and social and nutritional services. The nature of existing housing may become inappropriate; smaller units, apartments and institutional housing may take on new importance.

Adjustments to population change are not automatic. The decisions to provide more (or fewer) school rooms and teachers, more miles of sewer pipe, or more industrial parks do not flow automatically from the mere presence of more (or fewer) school-age children, households, or working age persons in the community. Moreover, the timing of adjustments to population change may vary among impacted communities. Consequently, evaluating the adjustments of revenue needs and revenue flows to support needed services and facilities requires an examination of the time path with which each grows (or declines) (Fox and Sullivan, 1979).

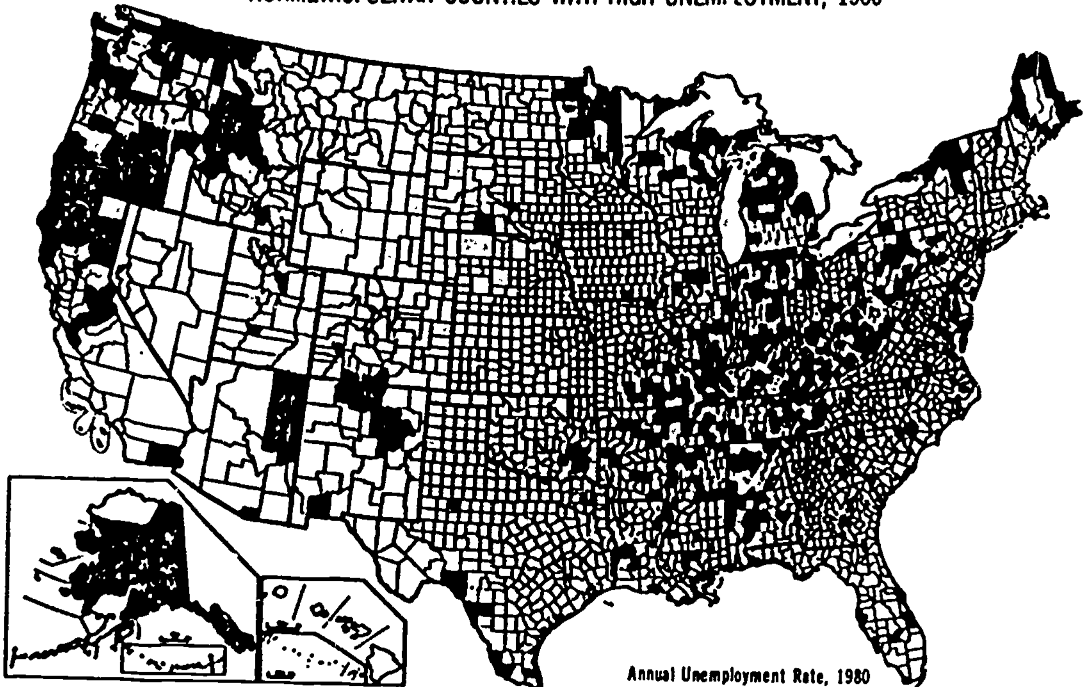
The impacts of population change are mediated by local institutions and social structure. In fact, the same demographic changes may lead to distinctly different outcomes in various communities. There is a great variation among communities in the capability of local government, in fiscal capacity, in political will to initiate change or adjust to it, and in the presence, organization, and effectiveness of nongovernmental community institutions. These differences can effect community response to social, economic, and demographic change. The President's New Federalism program further complicates the picture—distributing new responsibilities to local government at a time when many are struggling to carry on traditional functions in the face of pressure from a rapidly changing environment.

At the National Rural Symposium held in Racine, Wis., in March 1982, local government officials expressed anxiety over their ability to compete with larger cities for state assistance in the new federal-state-local system. Many do not see the state capitol as any less threatening than Washington, D.C. Many rural officials were candidly skeptical about the level of professionalism and technical competence in rural local government, about its organizational effectiveness, and about its ability to administer current responsibilities let alone new programs previously managed and financed by the federal government. Many officials are positively disposed toward the idea of new federalism, but nonetheless they are aware that adjustment will not be automatic or easy.

Nothing seems more counter-intuitive than arguing that there are problems associated with economic growth and diversification. In the rush to attract new industry, some rural communities have mortgaged away a large part of their economic benefits. This is particularly true in instances where industries were given tax incentives to locate in a particular town. Ironically, most industrial location research shows that tax incentives are not particularly effective factors in industrial location decisions. Tax give-aways are largely unnecessary; they substantially reduce the community-level economic benefit of having the plant, and they can raise equity issues with regard to the financing of public infrastructure. There is also evidence that some rural communities are attracting noxious industries, degrading the rural environment and natural resource base (Fox, 1982).

Rural America's historical concentration in agriculture and extractive industries provided a measure of protection from national economic trends for rural areas. Most rural areas fared better than their urban counterparts during recessionary periods. Now, with a widened economic base, rural areas are feeling the full brunt of the current economic downturn. For example, unemployment rates which have always been lower in rural than in urban areas have now shot ahead in rural areas. There is no question that the full force of the current recession is being felt in rural America. (Figures 3 and 4)

NONMETROPOLITAN COUNTIES WITH HIGH UNEMPLOYMENT, 1980



Annual Unemployment Rate, 1980

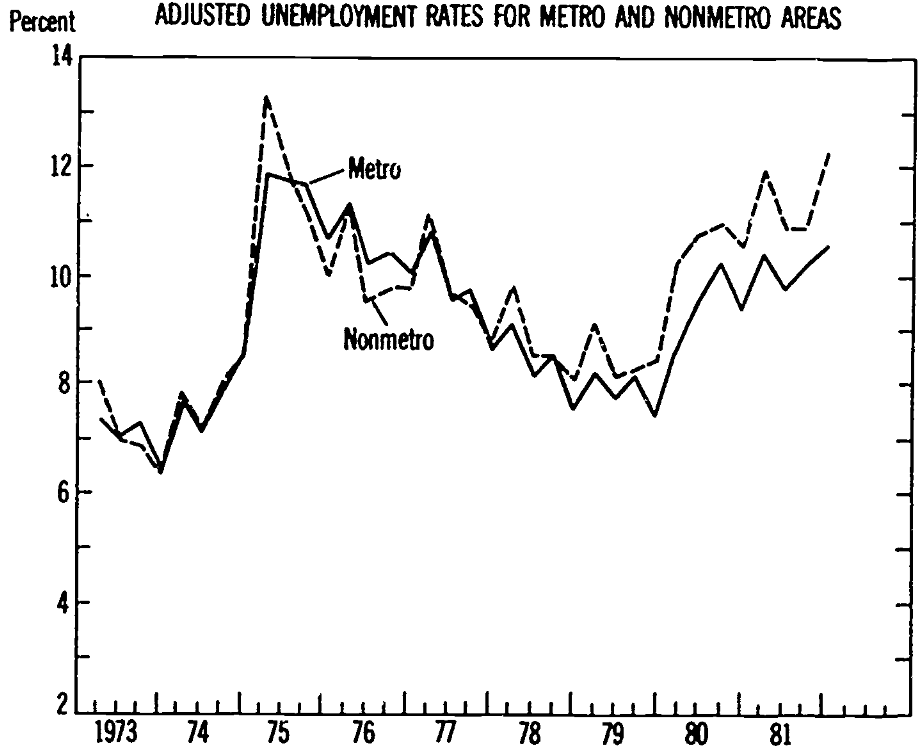
10.0 percent or more

Nonmetro counties with less than 10% unemployment and all metro counties

Figure 3.

Source: Bureau of Labor Statistics

ADJUSTED UNEMPLOYMENT RATES FOR METRO AND NONMETRO AREAS



Quarterly data adjusted to include discouraged workers and one-half of the involuntary employed part-time workers.

Source: Bureau of Labor Statistics

Figure 4.

Conclusions

Maintaining the quality of rural life during a period of rapid environmental change is a serious challenge for rural communities. We are used to thinking about problems associated with population and economic decline, but rapid unanticipated growth can create problems as well. In both cases, local institutions must adapt to alterations in the size, composition, and location of population and economic activity, but the outcomes of growth and decline are different and different adjustments are required.

Such adjustments are not an automatic outcome of population and economic change—the impact is mediated by local institutions (especially governments) and social structure. Diversity among rural areas is a crucial concept—"one size fits all" type programs and policies are generally inappropriate in the rural context. In addition, the far-reaching changes in intergovernmental roles and relationships being pursued by the current administration promise to transform the sociopolitical environment within which rural people and communities exist. The coincidence between socioeconomic change on the one hand and sociopolitical change on the other must be considered if the quality of rural life is to be maintained and enhanced.

All rural resources—human, economic, institutional, and natural—must must be identified and effectively mobilized to meet the challenge of change. Small cities and rural areas must find new and innovative ways to meet changing demands for public services and facilities. Economic, natural, and human resources must be combined in new ways to accomplish community goals and objectives.

Local government must be flexible and forward-looking. Historical characteristics of rural governments can be constraining of this flexibility. At least four aspects of rural government have historically constrained its ability to respond to changes in the sociodemographic and economic environment—small size of population served, limited fiscal capacity, internal organization featuring part-time officials and little or no professional staff, and political and administrative style which adheres to the status quo at almost any cost (Brown, 1981, USDA, 1981).

Local government must overcome these limiting characteristics if it is to be an effective participant in adjusting to environmental change. Local governments must innovate. Some examples include: use small scale technology, adopt public pricing (user fees) as an alternative (or supplement) to traditional sources of revenue, develop cooperative arrangements among communities (e.g. joint use agreements or mutual aid agreements), contract with private firms to provide services, develop joint public-private production of service, annex areas where required facilities already exist, and zone to control growth and maintain the natural resource base (Bryce, 1982; Coelen, 1981; Vehorn, 1981).

The political feasibility of these innovations is uncertain. Again, it is important to point out rural diversity. What works in one area may not make economic or political sense in another locale. There are tradeoffs between substantive importance (e.g. perception of a problem or need), economic feasibility (e.g. adequate revenue to support a particular service when it is needed), and political ibility (e.g. the proposed program is acceptable to the community and its political actors). The probability of sociopolitical or economic innovations to accommodate to environmental change is probably quite low unless there is a positive coincidence among these three elements.

Research-based information is an essential ingredient to bringing about change. Decision makers, elected officials, community leaders, and other change agents need reliable and accurate information to define the parameters of a problem, to identify the need for action, to develop alternative solutions, and evaluate their feasibility (both economic and political). They need reliable, current information which focuses on local situations and which can be utilized in a way that is intuitively understandable. Unfortunately, such information is often lacking. The vagueness of current information, and its mixing with political rhetoric, promotes public misinformation, reduced credibility for the social scientist, and leads to policies and programs which are often inappropriate and ineffective. The quality of rural life can be improved though the application of thoughtful research-based information on improvement trends, issues, and problems.

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ELEMENTS OF A COMPREHENSIVE COMMUNITY ECONOMIC DEVELOPMENT STRATEGY

Glen C. Pulver*

Improved community economic well-being as measured by individual income and employment is of concern to policy makers throughout the United States. At the local, state, and national level, public officials are of necessity attempting to outline strategies aimed at optimizing opportunities for community economic development. Their efforts are intensified in periods of high unemployment. Locally industrial development organizations, economic development committees, business groups, and government officials develop industrial parks, prepare promotional brochures, and sponsor special events in an effort to attract more income and employment to their community. State officials employ industrial developers, provide special tax incentives, and produce tourism promotional materials in a similar effort. On a national level, mechanisms for improving both individual and community income and employment include regional development

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districts, direct credit or loan guarantees to business, protective tariffs, emergency employment programs, and assistance to individuals.

The current economic situation, punctuated by relatively high unemployment, has stimulated a more serious look at the role of public governments at all levels, in community economic development. Opponents of public involvement argue that government intervention adds little to general productivity or increased employment but merely redistributes economic activity from one geographic area to another. They suggest that the entire effort is essentially a zero sum game, benefiting one group of people at the expense of another. Advocates of government involvement argue that public investment can be used to increase overall economic efficiency by increasing the flow of information and by reducing market imperfections which inhibit economic growth. They indicate that the net result of expenditures for infrastructure, promotion, financial assistance, etc. will be higher employment and income. In any event, if the hopes of the advocates of public involvement are to be realized, a number of fundamental changes in the economic structure of the United States should be recognized.

Structural Changes In the U.S. Economy

Rarely are public investments in economic well-being based on comprehensive analysis of the opportunities that communities have for development. Instead most are connected to a historic preoccupation with goods-producing industries, especially natural resource exploitation and manufacturing. For many years manufacturing has been viewed by many as the most effective vehicle for creating jobs and providing a long-term basis for income growth. This preoccupation grows out of the long-standing belief that goods-producing industries are the source of all wealth and that access to all services are dependent upon them. The relative well-being therefore of any community, state, or nation is dependent upon its ability to produce and export goods. This simplistic application of export base theory is of limited relevance in advanced interdependent economies in which individuals make choices between costly life insurance programs, complex health care, other services and goods such as computer games, stereos, and recreational vehicles. Contemporary community economic development policy must therefore recognize the fundamental roles of both goods-producing and nongoods-producing industries in income and job generation.

The United States economy has changed substantially over the past 35 years. In 1947, employment was almost evenly distributed between the goods-producing and nongoods-producing sectors. By 1975, the nongoods-producing sector had increased to almost two-thirds of total national employment. The projection for 1985 is that only 29 percent of the United States employment will be in goods-producing industries. No goods-producing industries are among the industries projected to show the largest increase in absolute number of jobs between 1977 and 1990. Among the industries projected to grow the most are retail trade, health care, business and professional services, wholesale trade, and banking. (See Table 1)

TABLE 1. INDUSTRIES PROJECTED TO SHOW LARGEST INCREASES IN NUMBER OF JOBS IN U.S., 1977-1990

Industry	Additional Jobs (Thousands)
Total, 10 Industries	16,712
Retail Trade	5,565
State and Local Government, Other Than Education	2,148
Miscellaneous Business Services	2,044
Other Medical Services	1,801
Hospitals	1,703
Wholesale Trade	897
Banking	712
Miscellaneous Professional Services	626
Nonprofit Organizations	609
Doctors' and Dentists' Services	607
Total Economy	24,900
10 Industries as % of Additional Jobs in Total Economy	67.1%

Source: Bureau of Labor Statistic, Employment Projections For The 1980s, U.S. Dept. of Labor Bulletin 2030 (1979), pp. 32-33.

There is little doubt that goods-producing industries will play a major role in any U.S. or state development scheme. In absolute numbers of people employed, manufacturing continues to be one of the largest industrial groups. As a matter of fact, manufacturing will continue to play a major role in providing jobs to a high percentage of communities. Shifts in agriculture production and natural resource exploitation will also have important impacts (both positive and negative) on many rural communities. The development of coal mining and electrical energy generation in the Dakotas and the subsequent changes in nearly communites serves as an excellent example. The important point is that although expansion of the goods-producing sector will continue to be a part of any economic development strategy, it will no longer be the dominant force that it once was. (See Table 2)

TABLE 2. PROJECTED TOTAL EMPLOYMENT BY MAJOR SECTOR IN U.S.

	(Thousands) 1980	1990
Manufacturing	21,492	23,882
Mining	1,002	1,072
Construction	5,087	5,748
Transportation, Communications, Public Utilities	5,212	5,658
Trade (Wholesale & Retail)	23,351	27,370
Finance, Insurance, and Real Estate	5,312	6,695
Services and Miscellaneous	21,463	28,049
Government (Civilian)	15,868	17,507
Agriculture	2,974	2,634
Total	101,761	118,615

Source: Bureau of Labor Statistics, Employment Projection For The 1980s, U.S. Dept. of Labor Bulletin 2030 (1979) p. 32.

There are two fundamental reasons for the reduction in relative importance of goods-producing industries as a source of employment in the United States. The increased efficiency in production of goods over time has released human and other resources for application elsewhere in the economy. The percentage of the U.S. work force required to meet the country's needs for food, fiber, minerals, construction and manufactured goods has declined. The resultant increases in real wealth have allowed individuals to demand the advantages provided by the nongoods-producing sector. Health, life, and retirement insurance have become an essential requirement of nearly every household. The use of credit cards, personal checking, and other financial services formerly viewed as privileges are increasingly deemed necessities. Opportunities have expanded for individual mobility and recreation. Society can afford to provide some relief from the stresses of unemployment, aging, and physical handicap. These are only a few examples of those things that the American people have come to identify as the essentials of life.

The second major reason for the decreasing relative importance of goods production in the United States might be identified as a change in the world economic structure. In recent years, jobs in the manufacturing sector have been escaping the United States at an increasing rate. (See Peter Drucker, Managing In Turbulent Times, Harper & Row Publishers, New York, 1980 and John Naisbitt, Megatrends, Warner Books, Inc., New York, 1982) As the tasks employed in a specified manufacturing industry become more standardized, and the technology utilized ages, firms seek economic climates in other counties which are more favorable at least in the short run. For example, an increasingly large share of textiles, leather products, steel, automobiles, and radios are produced outside of the United States. The United States is not apt to regain its former share of these products regardless of future increases in production efficiency.

Variables Influencing Employment and Income

There is a growing recognition among policy makers that the economic well-being of any community is dependent upon a wide range of industries. It is increasingly evident that changes in the level of employment and income in a community are influenced by five interconnected variables: 1) the migration of employers; 2) the change in employment size of existing firms; 3) the birth or death of firms; 4) the location of private expenditures; and 5) public expenditure patterns. Each can influence employment in a specific geographic area in a positive or negative manner. (See Table 3)

TABLE 3. VARIABLES INFLUENCING EMPLOYMENT AND INCOME

VARIABLES		POSITIVE		NEGATIVE
Migration of employers	-	Firms move into an area	-	Firms move out of an area
Change in size of existing firms	-	Expansion in number of employees	-	Contraction in number of employees
Births or deaths of firms	-	Firms are started	-	Firms die
Location of private expenditures	-	Goods and services are purchased locally	-	Goods and services are purchased outside of area
Public expenditure patterns	-	Public expenditures are made in an area	-	Tax payments are sent out of an area

Migration: Recent research (See David Birch, The Job Generation Process, Cambridge, MIT, 1979) indicates that there is little migration of the entire operations of business firms in the United States. The migration of employment opportunities which takes place within the United States is generally in the form of new branch plants of firms which do not change headquarters locations. It is the growth opportunities which migrate. This represents substantial potential for policy manipulation and, in fact, has been the focus of most state and local economy development strategies. As mentioned earlier, in recent years there has been a major migration of employment growth potential to foreign countries.

Change in Size: The largest source of employment growth in most states in the United States has been through the expansion of existing firms. The often repeated "80 percent of new jobs come from the growth of existing firms" is perhaps an overstatement, nonetheless the general statement is undoubtedly true. Armington and Odle of Brookings found that on average, each percentage point of net employment growth is the net combination of 1.1 percent growth due to births, 117 percent due to expansion, 1 percent loss due to deaths, and .8 percent loss due to contractions. (See Catherine Armington and Marjorie Odle, Sources of Employment Growth 1978-80, Washington D.C., Brookings, May 1982) Often neglected is the fact that the contraction of existing firms also has a major effect on economic well-being.

Births and Deaths: A number of recent studies have placed great emphasis on the importance of the births of new firms, especially small ones, in the creation of jobs. (See William Schweke and Robert Friedman, "The Debate Over 'Who Generates Jobs?'" Entrepreneurial Economy, Washington D.C., Corporation for Enterprise Development, February 1983) Brookings determined that 41 percent of net new jobs between 1978 and 1980 were created by small independent enterprises. Birch states that 79 percent are created by this group of establishments. The debate continues as to who is correct. Both agree that small firms are major contributers to the loss of jobs through firm death. It is clear that independent firms both large and small are major contributors to employment growth through birth and expansion. Small independent firms are also major contributors to the development of new high technology. This introduces another element in the creation of a comprehensive economic development strategy.

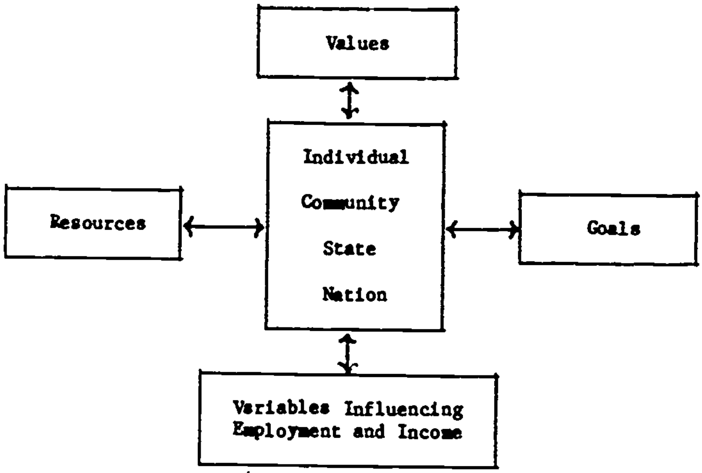
Private Expenditures: In an economic system dominated largely by private enterprise, consumers and industrialists are free to purchase goods an services any place they choose. The location of their purchase choice has a direct influence on the employment and income in various geographic area. If they acquire a share of their needs in communities, state or nations other than their own, the immediate consequence is the loss of employment and income opportunity at home. Obviously not everything can be produced in every community; thus, the nature of the long-run consequence of purchase patterns is a matter of trade balance. Nonetheless anything that can be done to capture the purchases of local citizens and firms as well as those from outside of the community, which produces a positive trade balance, will improve local employment and income. The converse is equally true.

<u>Public Expenditures</u>: The fifth variable with a profound influence on a community's economic well-being is public expenditures. In most U.S. communities, individuals and businesses pay a wide range of taxes much of which goes to wider governments (county, state, and nation). A significant proportion of these funds are used to maintain the services of the broader governments (e.g. social security, national defense, highways, universities). The major portion of the funds are expended within specific communities to maintain the services. Other portions are returned through grants etc. for community purposes. Funds which are returned to the community, either directly by government expenditure, or by grant have a positive effect on employment and income. Communities, which have net fund outflow comparing taxes and local expenditure of broader governments, lose employment and income. The potential effect is large. An indication of this is the fact that government employment (including federal, state, and local) accounted for 9.5 percent of U.S. personal income in 1980. Government transfer payments accounted for another 13.3 percent of total personal income. (Source: Bureau of Economic Analysis, <u>Survey of Current Business</u>, U.S. Dept. of Commerce. Vol. 6, No. 7, July 1981) Together they are a larger source of personal income than manufacturing.

Framework For Policy Development

A comprehensive community economic development policy at the local, state, or national level which recognizes the importance of each of the five variables requires a proper framework for actualization. Policy development does not take place in a vacuum. It requires proper consideration of four general items: 1) Values; 2) Goals; 3) Resources; and 4) Options in this case called Variables influencing employment and income.

FIGURE 1. FRAMEWORK FOR POLICY DEVELOPMENT



Each individual, (community, state, nation) brings a set of values to community economic development policy making. Two dominant values are usually considered in community economic decision making: 1) Efficiency calls for decisions which result in the greatest total product for the costs expanded and 2) Equity which leads to decisions aimed at a "fair" distribution of costs and benefits. Both strongly influence policy choices. Policy making also requires careful analysis of the resources which are available. Goal setting is an early task in policy development. It is imperative that a decision is taken regarding the desired outcomes of the policy. In most cases, policy makers have a wide array of strategy options from which to choose in attempting to achieve policy goals. This clearly applies in community economic development.

Community Economic Development Strategies

The strategies which are chosen by policy makers will vary depending on the locus of policy development. They will vary depending upon the area of coverage (community, state, nation) and as indicated by the values, resources, and goals f the policymakers. The following tables provide examples of the breadth of strategy choice if the goals of the policy makers are increased employment and income. (See Tables 4, 5, 6, 7, 8, and 9)

The primary focus of the strategies identified is on options for community action. A similar list could be developed for action at the state and national level. Public governments at these levels have even greater action latitude. They can create financial institutions, direct their expenditures to target geographic area and citizen groups, support broader promotion and management education efforts, modify tax environments, and a host of other options. They can likewise aim their actions at specific variables influencing employment and income as is seen fit. Comprehensive community economic development policies at the community, state, and national level are increasingly necessary but, as of this point in time, not yet a reality.

TABLE 4. WHAT A COMMUNITY CAN TO DO TO IMPROVE EMPLOYMENT AND INCOME

1. Improve efficiency of existing firms
2. Improve ability to capture dollars
3. Attract new basic employers
4. Encourage business formation
5. Increase aids received from broader government levels

TABLE 5. IMPROVE EFFICIENCY OF EXISTING FIRMS

The more efficient existing firms are, the more competitive they can be in regional, state, and national markets in the long run and — the more net income they can return to the community.

What can be done —

1. Strengthen management capacities of existing firms through educational programs.
2. Encourage business growth through indentification of capital sources.
3. Increase knowledge of new technology through educational programs in science and engineering.
4. Aid employers in improving work force quality through educational programs, employment counseling, and social services.
5. Develop community and regional facilities which improve local business efficiency and access to nonlocal markets.

TABLE 6. IMPROVE ABILITY TO CAPTURE DOLLARS

Every dollar expended within the community for retail, wholesale, and other industrial inputs adds to the employment and income of the community.

What can be done --

1. Identify market potential of retail outlets through survey of consumer needs and buying habits.

2. Improve share of retail market captured through downtown analysis and renewal. Use consumer and merchant surveys.

3. Aid employers in developing employee training programs to improve quality of service.

4. Expand purchasea by nonlocal people (tourists, neighboring citizens) through appropriate advertising.

5. Encourage local citizens and businesses to buy locally through informational programs.

6. Collective action through the formation of organizations such as chambers of commerce.

TABLE 7. ATTRACT NEW BASIC EMPLOYERS

The addition of new basic employers to a community will add employment and income directly. Through the multiplier effect, other jobs and income may be added. Basic employers include:

A. Manufacturing

B. Nonmanufacturing such as tourist attractions, insurance headquarters, computer services, wholesale warehouses

C. Nonlocal government

What can be done --

1. Expedite introduction of new employers through development of local industrial sites, public services, potential employee information.

2. Develop community and regional facilities necessary to attract new employers, e.g., transportation, recreational facilities, communications, business services.

3. Encourage collective action through formalization of organizations such as industrial development corporations.

4. Organize community capital resources to assist in attracting new business.

5. Identify most desired type of employer with greatest potential, through research.

6. Identify specific public programs, projects, offices, and/or services which could be located in the community and help organize politically to secure them.

TABLE 8. ENCOURAGE BUSINESS FORMATION

There is a continuing need for new businesses to meet changing needs (growth and different services, etc.). A new business can mean new income and employment. It can mean the capture of sales which otherwise go to other communities

What can be done —

1. Encourage investment of private funds locally through formation of capital groups and by other educational programs.

2. Organize community capital resources to assist new business formation

3. Identify market potential for new retail, wholesale, and input providing busineses.

4. Organize to provide individual counsel and intensive education for those interested in forming a new business.

5. Provide same services to businesses in formation as to businesses which are being sought from outside the community.

TABLE 9. INCREASE AIDS RECEIVED FROM BROADER GOVERNMENTS

A community may strive to reacquire dollars taxed away by broader governmental units and if possible acquire dollars taxed in wealthier communities.

What can be done —

1. Insure correct use of public assistance programs for the elderly, handicapped, and others who cannot work through organizations of educational and other program efforts.

2. Utilize aids from broader government whenever possible (e.g., streets, parks) through active monitoring and support of the activities of local officials.

3. Support political activities to insure fair treatment of community concerns by broader governmental units.

Summary

This is an exciting time to work on community economic development. There is an increasingly widespread interest in the need to generate intelligent community economic development policy at all levels. The intense interest is undoubtedly an outgrowth of the current concern for high unemployment and reduced incomes of many persons in the United States. Nonetheless, it is a teachable moment, a great opportunity to teach and to learn.

The primary point is the importance of developing comprehensive community economic development policies appropriate to the changing times. The goods-producing sector of the economy is of declining relative importance in the formation of new jobs. The greatest increase in U.S. employment over the next few years will be in the service-producing industries. It is also anticipated that small independent enterprises will continue to be the major source of employment. This will come both from new formations and business expansions. An equally critical element is the growing importance of government employment, transfer payments, and property income as sources of family livelihood.

Comprehensive community economic development policy must appropriately take into consideration all of the variables influencing employment and income. These include migration of employers, changes in size of existing firms, births and deaths of firms, location of private expenditures, and public expenditure patterns. Each variable can be influenced by a number of strategies. There is much yet to be learned about the precise effect of each strategy. Nonetheless, a relatively clear set of strategies can be chosen to meet desired goals within existing community value and resource conditions. Now is a great time to join with concerned others in turning the idea into a reality.

RECRUITING IN THE 80s AND 90s

John A. Quinn*

Introduction

Our topic is recruiting in the 80s and 90s. But the question remains recruiting what for whom? Several suggestions from your program committee in their letter to me provide some response to this question:

"...Review what we know about industrial location decision making. We are more interested in the decision making than location factors...

"However, we would like for you to incorporate the location factors affecting nonmanufacturing business...You may wish to contrast these with manufacturing location factors...

"...We are interested in nonmetropolitan communities, hi-tech economy, and, finally, innovative programs."

I must confess I was most taken by the notation of the location decision making process—I intend to consider that process in the next

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few minutes and then hopefully provide some useful comments on each of the suggested points.

Some Personal Experiences

As we begin this session I would like to first share with you two recent experiences of mine. Some time ago, I was serving on my home-town's city council. I live in Tuscola, Illinois, a county seat, a little over twenty miles south of Champaign-Urbana. Tuscola is some thirty miles east of Decatur, Illinois, thus, located almost equi-distance from two small mid-state metropolitan areas. Champaign has the university, Decatur has Lake Decatur. Some two miles west of town is a large petro-chemical complex. It is located there becsuse two major cross-country pipelines meet at that point. The primary production facility in the complex is owned and operated by USI (United States Industrial Chemicals). There are the usual assortment of auxiliary or support operations located adjacent to the complex. A satellite production facility in the complex is owned and operated by the Cabot Corporation of Boston. This facility is at present the single production unit for one division of Cabot—called the Cab-O-Sil Division Headquarters out of the corporate headquarters. But if out of Boston, to where? To Central Illinois, of course, but where in Central Illinois? The larger questions had been answered by corporate management, the lesser questions were left to the division vice president.

While the employment figures were very modest for the headquarters complement, the type of employee and accompanying payrolls were not. Additionally, there was the glamour and aura of having a division headquarters at stake.

Now, it so happens that the division vice president had at one time been the plant manager at the Tuscola plant. During his tenure at Tuscola, he had lived in Decatur and still had many friends in that city. He was also a sailing enthusiast. You can imagine his location decision.

As matters worked out—the division was located at Tuscola and on land already owned by the company and adjacent to the plant. The incoming engineers all located in Champaign, the vice president located in Decatur and all commute.

The final site selection was ultimately made by corporate management; renewing my faith in that level of decision making.

A Second Experience:

About two years ago the R. R. Donnelley Corporation in Chicago announced their interest in locating a printing plant in Champaign County. The company had optioned a farm and desired a zoning amendment from agriculture to industrial classification.

Now an archaic definition of Champaign is battleground; and that is what the county became for over three months. What intrigued me, regardless of the merits of either side of the dispute, was the strategy employed. My faith in corporate management was deeply shaken as events unfolded. The land was rezoned, but the company did not exercise its option, and the land has been rezoned back to agriculture.

Answers to many of my questions still seem to elude me. How could a sophisticated corporation with real estate all over the country get into such a bind--and create such controversy?!

The Decision-Making Process

Most businesses plan at a minimum next year's budget. Generally, the larger and more capital intensive the company the more formal the planning process--and often the longer the time frame. For companies with formal planning, four to five year planning is typical with annual updating. Three distinct levels of this process can be identified: corporate, facilities, and plant.

Corporate Level:

An important part of corporate level planning, is it brings together the company's marketing or sales objectives, strategies, and forecasts with its production capabilities--arriving at some consensus on overall company goals and objectives and thus achieving some reasonable balance between supply and anticipated demand.

It is often at this level that the need for production capacity adjustments are recognized. Short-range adjustments are usually the province of individual facility managers, e.g. changing hours, providing overtime, adding or deleting shifts, adding or reducing workforce, inventory adjustments, or subcontracting extra production.

Longer term adjustments become part of the corporate decision making, e.g., acquisitions of existing companies, equipment and technology change, on site permanent expansions, expansion to other company facilities, and relocation decisions are often made in combination with other facilities, or the building of new facilities elsewhere.

Decisions to change capacity consists of four steps:

1. Recognizing future capacity shortfalls or surpluses;

2. Options or alternatives—for remedy, both short term or long term;

3. If new—where—generally; and

4. If new—where—specifically?

Facilities Level:

In some large companies there is a facilities planning unit continually involved in the capacity change process. More often, however, once steps one and two above have been completed, a special committee or project team is formed to cope with steps three and four. The new facility manager is often a member, or the chair, of this group. If available, corporate staff contribute their expertise to the proceedings.

There are often two distinct management points of view regarding expansion of facilities. The division or company executive will usually prefer brownland or existing facility expansion. It spreads and therefore reduces overhead over larger outputs (a criteria for good managers); costs, acquisition and development are reduced; permits (zoning, building, and environmental) are usually easier to get; no search efforts are required; management is available and control is more direct; and there is no separation of production lines or product lines. Corporate management often prefers new facilities (greenland expansion) to utilize new technology, avoid labor difficulties, avoid employment of too large a percentage of the local workforce, or to avoid overloads on facility management.

In resolving these issues, many companies formulate policies in terms of a facilities strategy: clear statements of a facility's responsibilities are developed, sometimes called charters. There are:

1. Product-centered facilities. These units are usually high volume, very wide (often national) market servicing, labor rate sensitive and/or location specific (food processing, e.g.)

2. Market-centered facilities. These units are usually transportation rate sensitive and serve specified areas.

3. Process-centered facilites. These units specialize and are highly integrated with other company operations. These facilities are often clustered in a region to reduce costs of moving materials, engineers, and managers between facilities.

4. General purpose facilities. These units have great flexibility in terms of company capacity needs.

   (Note that high-tech facilities usually fall into categories one or three)

There are closings simply because the facility cannot be renovated or renewed in a cost-effective way for the owner company. In other situations, the locational dynamics doom the facility. It is interesting, however, to watch how the renovation and use innovations in the industry itself, affect the reclaiming some of these obsolete structures.

Plant Level:

We are now ready to initiate the third level of the overall planning process--the facility project. The decision having been reached to build a new facility and a project team organized--the first step is to gather basic information concerning the new facility itself, such as, product lines and technology; labor force needs; size, both square footage under roof and acreage; transportation requirements; utilities; and interaction with other company facilities. Company engineering begins the design work and is available later to inspect sites.

Company policy and past experience may bear heavily at this point. A multi-facility company usually already knows whether it wants to locate in metropolitan or nonmetropolitan areas, whether in an industrial park or on a separate site, and finally whether it will consider an existing building or prefers to construct a new structure.

There are usually two sets of criteria developed--a necessary or must list, which generally is controlling, and a second set of desirables or wants. Raw materials and supplies, labor, transportation, and markets usually make up the must list. Occasionally, environmental considerations play an important part. Community aesthetics, quality of life, etc. are prominent in the desirables or wants list.

At this point, some firms who maintain land banks carefully screen their own sites and some firms with a large volume of site information from previous location searches will review that information.

The project team now begins a series of discreet external contacts. State development agencies, transportation companies, and/or utility companies often furnish potential site data based on information provided by the team. Screening and filtering of potential sites by the project team produces a list of possible sites. Now community visitations start and the list narrows to probable sites.

At this point, the decision is reached—often by the company or division executive. An option is usually taken on the site selected and detailed site analysis begins.

Funding

Of importance now is the capital appropriations request to be forwarded to corporate management for review and approval. Of some significance, in terms of formulating and championing this request, is the origin of the initial decision to build a new facility. At what level was the project initiated? If a division or company executive originated the proposal, it falls to that individual to convince corporate management of the merits of the proposal, often in competition with other such proposals.

If the corporate staff initiated the proposal, the process probably has been more vigorously pursued, has been more thorough and comprehensive in its approach, and probably has resulted in a more objective decision. The larger and more capital intensive the industry the more likely this latter approach. Consumer-oriented and entrepreneurial organizations tend to be in the former category.

This describes, in at least a crude fashion, the decision-making process. Investigation of this process is extremely scarce, therefore, we often make very risky assumptions concerning its rigor, depth, and sophistication.

Location Factors

Maurice Fulton, former chairman of the Fantus Company in an address, before the Southern Industrial Development Council last October, titled "Changing Plant Location Decisions" emphasized five points:

1. The Sunbelt-Frostbelt phenomena, of which we hear so much, is a generality that needs further investigation. The Charlotte, Orlando, and Dallas prosperity has failed to penetrate many large parts of the South and West. At over 14 percent, Alabama's unemployment rate is higher than that of any other state but Michigan's 16 percent. Conversely, vigorous growth is occurring in states which are neither traditional manufacturing centers, nor part of the Sunbelt, e.g., Kansas' unemployment rate is 5.1 percent, Nebraska's 5.8 percent.

2. There are five broad categories which represent about 90 percent of the total geographically variable cost factors associated with a typical plant location decision. These are labor, transportation, utility, taxes, and occupancy costs. There are substantial changes taking place both relatively to each other and within each. Transportation has gone up dramatically, labor rates are stabilizing, utilities are up and evening out across the country, business climates among the states have stabilized but as states and cities bear

increasing social costs, pressure will grow for substantial tax increases, and finally, occupancy costs have increased faster than any of the other costs during the 70s. Of these costs, interest rates and construction costs will probably stabilize.

Most of the evidence suggests that, from a cost standpoint, the regional differentials appear to be narrowing.

3. A third but significant trend is the increasing attention to the noncost factors. The "cheapest" location is not necessarily the optimum location. "Quality of life" is assuming a larger share of attention.

4. There is anticipated to be serious labor shortages as this century runs out. The increasing participation by women has shielded this problem.

5. Grants, subsidies, and inducements will become major locational criteria. And major foreign firms will be strongly competing in this arena. The interest in enterprise zones and free trade zones illustrate the point.

Mr. Fulton concludes his remarks:

"The classic and fundamental criteria of plant location will continue to apply during the 80s. However, few decisions will be made or will be able to be made—without consideration of these new forces emerging to shape this country's economic geography."

The Nonmanufacturing/Service Sector

A few comments seem in order concerning the services sector of the economy. This sector includes a large variety of activities beginning with finance, insurance, and real estate but also includes hospitals and medical fcilities, government and schools, research insitutions, househrld and personal services, and, of course wholesaling, retailing and the hospitality industry.

Characteristics of the sector include: labor-intensive activities, mostly white collar occupations, small size of operations and owner noncorporate operated, a high percentage of women and older workers, and part-time employment. The product is usually intangible, not inventoriable, and dependent directly on the consumer who is often a part of the production process. There is very low unionization but employment generally tends to be stable.

Two problems seem paramount: one, the sheer diversity of activities in this sector makes generalizations about the sector almost impossible; two, management skills and productivity have traditionally been low. It is in these factors that we may have our best opportunity to contribute to the development of this sector of our communities' economy.

In the article "Nonmanufacturing Business as a Growth Alternative in Nonmetropolitan Areas,"[1] Smith and Pulver concluded: nonlocally owned nonmanufacturing business--those more likely to be exporters--- cited labor, market, and other cost factors as most important location factors. The similarity between manufacturing and nonmanufacturing location factors means that communities do not have to make major changes in preparation if they decide to include nonmanufacturing businesses in their economic and job development efforts.

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[1] Journal of the Community Development Society, Vol. 12, No. 1, 1981, pp. 33-47.

An ad placed by the Illinois Department of Business and Economic Development in a business publication drew a response from Dallas, Texas. Because that indication of interest was followed up aggressively, 450 new jobs were created when a new distribution center opened in Illinois. An executive of the new facility commented:

> "From a distribution point of view, Champaign was the most desirable - but equally important was the civic atmosphere. You have a very progressive community...
>
> A business decision through and through, made after the company looked at potential locations in three states. To sum it up, the mixture was the <u>most</u> attractive we could find anywhere. It brought us to the county!"

Market penetration indicated the midwest, interstate highway access was controlling, and the community qualities finally determined this location decision.

This sequence is probably very typical of the nonmanufacturing - service sector in location decisions.

Micro Policy

There is no general agreement about the capability of rural areas to attract growth, especially economic, and the evidence is mixed. We all know of rural communities with strong leadership, perfect timing, and luck that have attracted significant job generators. The question is: Can these communities be emulated? Can they serve as a model for others to follow? Reproducing that leadership, timing, and luck is unlikely at best. Aside, then, from these unique communities, what rural areas appear to have the best chance for recruiting new firms? Investigation of this question is just gaining a good start;

preliminarily, it appears that those rural counties with an urban center of at least 10-15,000 population, or more, are competing rather well. It may be, at least from a (cost-effective) development program perspective, that emphasis should be on the rural-urban centered county. The appearance of newly designated small SMSAs each decade would seem to support this notion.

High Technology: The High Fashion and Glamour Sector of Industry

A technical industry is defined broadly as one in which there is a high degree of scientific or technological knowledge required for performing its processes, for designing its products, or for manufacturing its equipment. Typical technical industries include petrochemicals, electronics, telecommunications, aircraft and missiles, and pharmaceuticals. Examples of Standard Industrials Classification Numbers would be 357, 366, 367, 376, and 381. Companies would include Texas Instruments, Digital Equipment Corporation, Motorola, IBM, Burroughs, Honeywell, and Hewlett-Packard.

There are four notable areas of hi-tech concentration--Silicon Valley in California, Cambridge-Boston, Massachusetts, Charlotte and the Research Triangle in North Carolina, and, as reported in the January 17th issue of Business Week, the Silicon Mountains--the 150-mile strip from Boulder--Fort Collins to Colorado Springs via Denver.

This same Business Week article has two additional statements germain to our consideration here. One, the Shearson/American Express processing center with 1,200 employees established in Utah, is a prime example of service sector economic development. Two, a word of caution, "isolated" towns populated by unskilled, semi-skilled, and aging workers offer few attractions for high-tech or service-oriented companies.

The profile of high-tech enterprises is no secret. These enterprises are:

1. Characterized by rapid change both in products and process;
2. Populated by a high-skilled, well-educated corps of scientists, engineers, and technicians;
3. Generally prefer to cluster; and
4. Location-wise are footloose but with an emphasis on life quality situations, particularly education facilities.

The same week that Business Week issued its 1983 Industry Outlooks, the Christian Science Monitor news service released an article titled "Future Job Growth in U.S.: It's Not in High Technology." The essence of this article is that demographics indicate the job growth advance will be in (1) those occupations that cater to the over 35 set and (2) generally in service-oriented occupations: accountants, cashiers, secretaries, paralegal aids, travel agents, etc.

Having said all this, let's return to my earlier examples. In the divisional headquarters location--where to locate specifically seemed obvious--on the corporation's own property adjacent to the only producing facility of the division, with the low costs and familiarity of established operations.

In many ways this is similar to hi-tech venture (and also with nonmanufacturing): small numbers of engineers and technical people with high salaries and the glamour. The people commuting once again displayed the stated preference for a larger community, the engineers for a universty and the division VP for aesthetics.

The real impact on Tuscola was minimal. The headquarters was located outside the corporate limit, with personnel not even becoming residents. Tuscola's economic base remains essentially service to agriculture, plus regional retailing and government.

In the printing firm location all the typical characteristics are there especially for a mature product-oriented plant. They are a rural location, with non-union labor, on a remote and separate site. As near as I can determine, only the nonrural nature of the county board's composition had been overlooked.

Innovative Programs

There is probably no part of the country that has pursued industrialization longer or more aggressively than those states from Virginia to Florida and west to Oklahoma, essentially now described as the Sunbelt. Innovation, imagination, and persistance have been hallmarks of these states' efforts to attract jobs for their citizens. From Mississippi's Balance Agriculture With Industry (BAWI) Program in the 1930s to North Carolina's development of the Research Triangle in the 1950s, leading citizens including governors have devoted incredible energy and resources to expanding the states' economies. Free sites, buildings, worker training, tax relief, and a variety of financial incentives have been packaged to promote the various states and their communities. Industrial parks with infrastructure and amenities provided are common. The success examples are plentiful.

Yet the evidence is mixed. There are, of course, the failures that no one talks about. There are also some serious questions concerning the environment; there are also some more fundamental questions being posed as to results.

It seems quite clear the South as a region generally adopted a strategy for industrializing the South that we would entitle "Place Prosperity" as formulated by Tweeten and Brinkman. Savannah, Spartanburg, Huntsville, and Orlando are striking examples of this theory in action.

In 1975, the Fantas Company developed a list of criteria by which the state business climate could be ranked including: corporate, property, income and unemployment tax rates, workmen's compensation payments, welfare expenditures, labor relations history, and pro-management labor laws. All (15), except California, of the Sunbelt states were in the top half; eight were in the top twelve. Interestingly, seven of the North Central states were in the top twenty.

Yet, a study by the Midwest Research Institute of Kansas City in the same year ranked the 13 southern states from thirty-fourth to fiftieth in a quality of life ranking. Certainly a paradox given the claims of success.

Too often a community adopts tactics used by other "successful" communities regardless of appropriateness and without a unifying strategy. Here, too, we might contribute significantly to local efforts by providing assistance in integrating a comprehensive approach to development.

Recruiting

Finally I should like to consider, for the moment, recruiting and professionalism. The odds against a successful economic development program are large but not insurmountable. As with any group endeavor it takes team work and organization. It takes a variety of individuals contributing to common, well-conceived, realistic goals and objectives.

For those of us outside the community who wish to participate in the process, we need to recognize and join with the "other" professionals engaged in economic development activities. To begin with we should belong to our own state's professional development organization--and most states have them.

We might also consider their regional organizations--in our case, the Mid-America Economic Development Council (MAEDC). Further, we should establish some relationship with their national organization, the American Economic Development Council (AEDC). There are, of course, others but these are mainstream. If these organizations are new to you, they should not be! Each of them sponsor meetings and educational programs that I feel would be of value to you. And I think you have something to contribute to their programs.

It is interesting that we have gone through this process with the urban and regional planners. Increasingly we find planners on our staffs. I frankly think we will have to do the same with the professional developers. I expect to see Certified Economic Developers (CED) soon on our staffs. This is not to downgrade our own past and present efforts to assist our rural communities. It is simply the nature of our own service to expand into new areas of activities, and to add staff capabilities to support these efforts.

Probably the single key organization for economic development in a state is the state agency charged with this responsibility. Its resources, staffing and budget, and programs reflect the state's seriousness in both protecting and nurturing the state's economy. We should be working closely with this agency in research, in educational programs, and in community contracts. And we should be using what influence we may have to encourage professionalism in this agency.

Conclusion

If we are seriously interested in the nonmanufacturing/service sector of our micropolitan communities' economies, I have suggested at least two activities in which we could probably be most helpful: one, the formulation of an appropriate development strategy, the unifying concept within which operational tactics take place and which requires a closer working/ongoing relationship with the economic development professionals. This relies on our public policy experience. Two, the improvement of management and of labor productivity within the service sector, activities for which extension takes great satisfaction for its accomplishments in the agricultural sector.

By relying upon our demonstrated strengths, we can meaningfully participate in the area,"Recruiting in the 80s and 90s - For Community Economic Developing."

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RETENTION AND EXPANSION: THE OVERLOOKED POTENTIAL

Sam Crawford*

I live in southeast Ohio in a very rural part of a county. Some time ago I visited one of my neighbors. As I drove in the lane, I saw him out by the barn. I asked him what he was doing. He told me he was jacking up the barn because his mule kept bumping its ears on the top of the door. I asked him why he didn't just dig out under the door. He told me that the feet were not the problem, it was the ears that were the problem. My daughter suggested that he should just make the door higher.

The point I hope this story makes is that there is more than one way to solve a problem. Some are just easier, quicker, and cheaper. The same goes with economic development programs.

The goals of this three-day conference are to inform the participants--"how to implement an extension program and provide some research needs for the 1980s" in economic development. My part of the program is to talk about the "overlooked potential - retention and

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expansion of existing firms." Another term needs to be added - retention, expansion, and creation of local firms. Albert Shapero will talk about "Stimulating New Business Formation" later today, but I would like to touch upon it in my presentation.

My approach will include a lot of examples. We all know anything can be proven by some examples, or, depending on our point of view, nothing can really be proven by isolated examples. Hopefully, however, I will furnish some "seeds" that you will be able to "plant" when you return home.

Theodore Roosevelt once said, "...do what you can with what you have, where you are." That is what retention, expansion, and creation of local firms is all about—working with what you have.

Some Examples of Local Entreprenuers

I would like to start by telling you a few seemingly unrelated stories. These stories, or examples, will hopefully lead us to the goals of the conference.

A few years ago our director gave a talk in southeastern Ohio on the economic opportunities in agriculture. He talked about tomatoes, grapes, apples, livestock, mushrooms, and other subjects. For some reason a local plumbing contractor picked up on mushrooms. He talked to the director and some of our specialists. He visited some existing plants, investigated markets and financing, and made the decision to grow mushrooms.

A few years later he sold the mushroom plant to Campbell's Soup Company. Campbell's expanded the operation and now there are 300 people working at the plant.

Another entrepreneur, in the same county, declared bankruptcy about six years ago. He owned a furniture upholstery business that just could not attract enough customers. He decided to teach others how to upholster furniture. At one of his classes, a lady asked him if he would upholster their church pews. He turned her down because he went broke with that type of work once. Not long after that he visited a church furnishings company and asked them about upholstered pews. They told him it had been done and explained the process. He then decided to do the church. Today he has a growing nationwide business. He flies three planes out of the local airport to conduct the business.

In the same county another entrepreneur started an Oriental foods plant in the mid 1960s. A few years later he sold it and started another very successful business out of state. He moved his operation back last year and now employs between 1,000-1,300 people. His name is Jeno Paulucci of Jeno's Pizza fame.

In a neighboring county, a young man started very small, making banjos. He now has a nationwide mail order business selling banjos and banjo kits.

In another adjacent county a local entrepreneur bought a dump truck a few years ago. He is now a major employer with a large strip mine and farm operation.

One more example. A few years ago a small farmer started to sell sausage, then he started a restaurant. He now has a multi-million-dollar business selling sausage and has restaurants from

Georgia to Illinois to New York. His name is Bob Evans. Some of you from further east probably recognize the name.

What's the point of all these examples? Within a fifty-mile radius a few entrepreneurs created hundreds of jobs. In most cases, they were local people using local resources.

Some Examples of Supporting Local Businesses

Let's take a different approach. In a small city in northern Ohio a whole downtown area was restored to its original Victorian style by a local volunteer group and merchants. No federal or state funds were used. This city, Medina, Ohio, has drawn national attention from its results. The downtown area is busy and they do have a shopping center at the edge of town. The same city had a few key influentials who organized an industrial park which houses a number of locally owned firms plus immigrant firms.

A group of volunteers formed an economic development team in London, Ohio. In addition to traditional economic development programs this group formed a visitation team to work with existing firms.

In Athens, Ohio, a local economic development team was formed. They, too, formed a visitation team. They worked extensively with local investors to purchase a bias tire plant that had gone out of business. They have also formed a labor management team to work with business and unions.

Again, what's the point? Some communities organize and make things happen. Local people working with local resources, both human and natural resources, can have a big impact on local economy.

Extention Programs for Communities and Businesses

We in Extension work have the "know-how" to conduct programs to assist both communities and businesses. Notice I said communities and businesses, because there are two different appraches we need to look at.

Communities:

Let's first discuss community programs. We need to help them identify problems, to organize, and then to look at alternative solutions. We have been doing this for years. We have the know-how and experience.

In Ohio we have published a bulletin titled Economic Development Through Retention, Expansion and Creation of Local Firms.[1] The bulletin is a "cook-book, how-to" publication for local community groups to use in their economic development program. We have also developed a slide set and script on retention and expansion that complements the bulletin. The slide pictures are printed beside the script. This approach allows us more flexibility in distributing our information. It will also eliminate the need for notes when viewing the slides.

[1] Crawford, Sam. Economic Development Through Retention, Expansion and Creation of Local Firms, Bulletin 677, The Ohio State University-Ohio Cooperative Extension Service, 1981. A copy of this bulletin can be obtained by sending $1.25 to George Morse, Department of Agricultural Economics, Ohio State University, 2120 Fyffe Road, Columbus, Ohio 42210. The slide set is also available.

Let me give you a few examples on how the information is being used. The bulletin has been ordered from all over the state, mostly from chambera of commerce, community improvement corporations, and county agents. Columbia Gaa Company ordered 100 copies to use in their industrial development training claaaes. It waa alao used in the Ohio Basic Economic Development Course, the Ohio Industrial Development Workshop, and numerous presentations across the state. The bulletin was alao the baais for a national publication titled Creating Jobs Through Retention, Expansion and Creation of Local Firms.[2]

The alide aet ia getting aimilar use. It haa been shown at the Annual Extension Conference, the Ohio Induatrial Development Workshop, and numerous presentations throughout the state.

You are the firat to receive the printed script. As I said earlier, these will be used in conjunction with the alide presentation.

It ia unfortunate that the "buzz-word" in Extension ia "down-sizing." We need more "how-to" publications and video presentations. We need more good reaearch to base our programs. The need and market are there, the money ia not.

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[2]Crawford, Schnabel, John and Nelson, Creating Joba Through Retention, Expansion and Creation of Local Firms, National Extenaion Manpower Task Force, University of Kentucky, 1981.

Business Assistance:

Earlier I said we need to be aware of two approaches in economic development--the one we just discussed, working with communities, and the other, working with businesses and potential businesses.

Let me go back to some examples to give you an idea of some of what we have been doing.

A couple of years ago the mushroom plant I told you about earlier asked us to help them with a problem. They grew mushrooms in sterilized straw, hay, and horse manure from a local race track. After growing a few crops of mushrooms, they discarded the "compost." It was piling up around the plant. We had the "compost" analyzed at our soils lab to see exactly what it contained. At the same time we created a demonstration plot where we applied it to some reclaimed strip mine land. The nutrient value of the "compost" was not very good, but the organic material had some value. A firm in a neighboring county who sold mulches saw our plot and signed a contract with Campbell's to purchase the compost. A local entrepreneur is also selling the compost.

A similar project is underway with Jeno's Pizza Plant and the city where it is located. You might have read about this problem in Newsweek a few weeks ago. We are analyzing the tomato and pizza waste for possible land application or feed stock for swine operations.

We are also working with a county on a very unique project. This county has a nuclear enrichment plant that uses as much electricity as the city of Los Angeles. The plant uses a tremendous amount of water to cool its electric motors. Some private developers and local citizens have plans to construct an "Agri-Business Park" adjacent to the plant. The agri-business park plans call for 120 acres of greenhouses. The greenhouses will be heated with the heat from the cooling water. The county commissioners have agreed to hire a full-time county, CRD, extension agent, to work on the project. A few hundred jobs will be created from this project.

We are also working with a small group of investors who plan to establish a cheese factory. They have the production know-how, but have asked us to help in determining the potential source of Grade "B" milk and to help with a market study, and to evaluate the community impact.

A wood products industry has asked us to help them get established in Ohio. It is a small firm that is growing very fast. They are located out of state and want to expand in Ohio. Our role has been to help them by putting them in contact with the right people in the State Depaitment of Development and the utility company. We are also identifying different funding sources they might be able to use for their expansion.

We have also assisted small entrepreneurs with businesses such as landscaping and tree service, house cleaning, Christmas tree production, home services, crafts, and sawdust utilization.

Business Education:

Another approach we need to consider in working with businesses is designing educational programs to help both existing businesses and potential businesses. We need to develop workshops, publications, newsletters, and video presentations that will help them stay in business and grow.

In Ohio, we have conducted some programs along these lines. We have sponsored a series of pre-business workshops. We have had as high as 80 people attend this type of session. The purpose of these workshops was to help potential entrepreneurs get started on the right foot. We have also held business management workshops for existing businesses.

Program Design

You have all heard the saying "we learn from our mistakes." I would like to briefly share a learning experience. One of our business management workshops emphasized record keeping, taxes, legal, and insurance needs. Only ten people registered. We made a mistake that no one in extension should make. We had designed a program without involving the audience.

Since that time I conducted a "semi-scientific" survey, if that's possible. We randomly selected 100 businesses in a nineteen-county area and asked them to indicate what subjects they would like to have more information. We also asked in what form would they like the information. Here is what they told us from most important to least important:

1. business trends
2. management
3. financing and computer (tie)

4. taxation
5. advertising
6. marketing
7. human relations
8. population statistics
9. time management
10. legal considerations
11. insurance
12. accounting and record keeping

You will notice that three of the four subjects that we offered at our workshop are at the bottom of the list—legal, insurance, and record keeping. Wonder if that had anything to do with our small turnout?

The survey also told us that they overwhelmingly preferred a newsletter over other means of receiving information.

We are presently developing a newsletter and mailing list. Our first issue should be in April.

Conclusion

I would like to conclude with these remarks. First, we need more researched-based information in economic development. If we don't have that, we are just like so many others running around out there who are doing what ever is in fashion.

We need more research to determine the role of local firms in economic development, to determine how communities can best work with these industries. We need more business management educational materials for both new and existing businesses. We need to understand the nonmanufacturing part of the economy.

We aiso need to understand better the role of "high-tech" in rural economies. You will probably notice that this is the first time I mention "high-tech." None of my examples include this term. Until a few weeks ago, I thought "high-tech" would be a growth area for more metro areas. However, after reading about Atari's plans to move to Hong Kong or Taiwan, I'm not so sure that rural areas should be discounted.

We need more "how-to" publications, newsletters, and video presentations. We need to share our programs better than we have in the past. I believe the "buzz-word" is "networking."

Finally, here are two quotes—one from one of our county's annual reports and one from Jerome Kaufman, University of Wisconsin.

> "Two valuable chemicals can be poured together and nothing happens. Then a third is added and the whole mixture goes into action. What happened? A catalyst was added which created the right mix for action to result.
>
> "It's the same way with people. People often go about their daily lives without using all their talents. They sometimes need a catalyst to cause them to put their talents into action.
>
> "That's where the Cooperative Extension Service comes in—matching talents to worthwhile tasks."

Don't try to solve every problem the same way,
Remember that if the only tool you have is a hammer,
then every problem will look like a nail."

Jerome Kaufman
University of Wisconsin

TRADE AREA ANALYSIS - A CATALYST FOR COMMUNITY DEVELOPMENT

Kenneth E. Stone*

The development of a town's retail sector should be an integral part of the community development process. A strong business district helps ensure that money earned in the industrial and services sectors is turned over in the community to achieve the maximum multiplier effect. However, few states have well-defined development programs aimed at the retail sector. Part of the reason for this may be the difficulty in assessing the status of business districts and in gaining entrance into the retail community. This paper describes a program used in Iowa to determine the economic health of a community and to encourage the development of a retail strategy.

Trade Area Analysis-What is it?

A trade area analysis is an evaluation of the status of a town's retail sector and is analagous to a physical examination for a person. The trend of the town's sales over a period of years is established and graphically compared to those of surrounding towns. The town's

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actual sales are compared to norms for similar size towns to determine if the town is experiencing net outflows ("leakages") or net inflows ("surpluses"). This should be done for each merchandise group to determine marketing voids or opportunities. Demographic information is also included to assist merchants in precisely defining their market segments.

What Data is Needed?

Reliable sources of information are needed for town and county retail sales, population, and income. The retail sales information is most crucial to the analysis and is usually also the most difficult to obtain. The ideal source of sales data is state retail sales tax reports. However, not many states publish sales tax data, despite the fact that most collect it. Population and income data are usually easy to obtain, both from governmental and commercial sources. In addition to state sales tax reports, the following data sources may provide some or all of the information needed for a trade area analysis.

U.S. Census of Population—provides population information for towns and counties. Published every 10 years.

U.S. Census of Business, Retail Trade—provides retail sales by merchandise group for towns and counties. Published every five years.

Sales and Marketing Management, Survey of Buying Power—provides retail sales data (by merchandise group), population and income figures for all counties and for Standard Metropolitan Statistical Areas (SMSAs). However, no information is available for smaller towns. Published annually in July.

Edi-or and Publisher, Market Guide—provides retail sales data (by merchandise group), population and income data for all counties and for SMSAs. Provides some data for smaller towns with daily newspapers with subscriptions above a certain mimimum. Published annually.

Standard Rate and Data Service—providea some data on retail sales, population and income for counties and SMSAs. Published annually.

How is it Done?

Maximum effectiveness is achieved from a trade area analysis when it includes both a pictorial history and a thorough analysis of the current situation. This can only be done when a complete data base exists.

Historical Analysis

The historical analysis consists of a series of graphs depicting the recent history of retail sales for the town and the surrounding towns. The following graphs are normally included.

Total Retail Sales—in Current Dollars. Typically total retail sales for the last 10 years are plotted on a chart for the subject town and its competing towns. Current dollar sales are not adjusted for inflation and represent the format that most merchants are familiar with.

Total Retail Sales—in Constant Dollars. This chart compares the same towns, but the sales figures have been adjusted for inflation. Our analyses use the Consumer Price Index as the deflator, however, others could be used. In effect this chart portrays "real salea" or the actual volume of goods and services sold. Many merchants are surprised to find that even though their town showed increases in current-dollar sales, sometimes their real sales are significantly down.

Per Capita Sales. This chart divides each towns' total sales by the town population to arrive at per capita sales. This is a better indicator than the previous charts for showing the true performance of a town's retail sector. In other words, the towns are compared on a more equitable basis.

Pull Factor. This is a proxy measure for the average size of the trade areas. It is derived by dividing town per capita sales by average state per capita retail sales. For example, 7,500 divided by 5,000 = 1.5. The interpretation is that the town's trade area included the equivalent of 150 percent of the town's population in full-time customer equivalents. When carried to two decimal places, the pull factor is a very sensitive indicator of the vitality of the town's retail sector and is especially useful in showing the trend of the town's trade area size.

Current Analysis

The current analysis examines the status of the town's retail sector by merchandise group. Potential sales are calculated for several merchandise groups such as building materials, general merchandise, apparel, food, services, and others. These potential sales are then compared to the town's actual sales to determine the areas of leakage or surplus. Typically these are done for the last two years to determine if any recent changes occurred. The surpluses and/or leakages are presented in terms of dollars, percent of potential sales and full-time customers gained or lost. Another table compares the subject town's performance by merchandise group to other towns of a similar size from other parts of the state. The towns are ranked from first or last according to their performance within each merchandise group.

Demographic data are also presented. Population is delineated by age group so that merchants can see both the numbers and percents within several categories. Income is also delineated to show the numbers and percentages of families within several income brackets. Total retail sales surplus or leakage by county is shown.

Determining Potential Sales

The most difficult task associated with a trade area analysis is the determination of potential sales. There are probably several ways of arriving at what a town's potential sales should be. We have developed a relatively simple method that seems to give satisfactory results in most cases. Essentially the same procedure can be used for counties and towns.

County Potential Sales. The equation for determining potential county sales is:

PS = CP x PE x II

where:

PS = Potential sales for the county
CP = County population
PE = Per capita expenditure (average) for retail good and services
II = Index of income (the average county income as a percent of the average state income)

The following example should illustrate the procedure. Assume the following:

CP = 20,000
PE = $5,000
II = 0.90

Then PS = 20,000 x $5,000 x 0.90 = $90,000,000. The interpretation of this result is that the residents of the county are expected to spend approximately $90 million on retail sales during the year.

Town Potential Sales. A simple method for determining potential retail sales for towns is nearly identical to the procedure used for counties, with one addition to the equation. The addition, called "pull factor", takes into consideration the trade area size for the community. The equation is:

PS = TP x PE x II x PF

where:

PS = Potential retail sales for the town
TP = Town Population
PE = Per capita expenditure (average) for retail goods and services
II = Index of income (the average county income as a percent of average state income)
PF = Pull factor (a proxy measure for the average size of trade area)

Another example should demonstrate the use of this procedure. Assume the following:

TP = 5,000
PE = $5,500
II = 0.95
PF = 1.4

Then PS = 5,000 x $5,500 x 0.95 x 1.4 = $36,575,000. The interpretation of this is that the average town of this size with this income level would be expected to have total annual retail sales of approximately $36.6 million.

How is it Presented?

To achieve maximum impact, the results of a trade area analysis should be presented at a public meeting including a good representation of merchants, developers, city officials, media people, and any other interested citizens. Typically, the stage is set by relating the regional trends for retail trade migration. An overhead projector is then used to show the historical patterns for the town. By using the graphic aids a large amount of information can be assimilated in a relatively short time by most audiences. The presentation is made in an informal manner so that questions can be answered as they occur.

The overhead projector is also used to illustrate the current situation. The potential sales are compared to actual sales for each of approximately 12 merchandise groups. This is usually the highlight of the presentation, since this is where surpluses or leakages are first revealed. The presentation concludes with the comparison with other towns of a similar size and the ranking of each town within each merchandise group. A handout including all the presented material is then given to each interested audience member.

What are the Results?

In most towns, the results of the trade area analysis become the lead story for that day's news. Quite often this catches the attention of the community-at-large and of potential developers, especially if significant leakages are shown. Many community leaders report that the handout material is carried to various coffee shops, committee meetings, and other places where townspeople meet, and is one of the main topics of conversation for several days afterward.

More recently, entrepreneurs and developers both from in-state and out of state, are requesting this data to assist them in their evaluations of locations in various towns. Several town officials have reported that these reports have been the basis for expansions and new businesses in their towns.

Usually results do not occur overnight. There seems to be a germination period of one to three years before the information is acted upon and brought to fruition. However, as word of the results spreads and as the reliability is accepted, the germination period seems to be shortening.

For those communities with genuine desire to attempt to better their situation, a strategies program has been developed. The program assists town leaders in developing a long-range plan for strengthening the retail sector. Assistance is given in more precisely identifying weaknesses and needs. Programs are developed to help strengthen customer relations, promotions, financial management, personnel management, and other areas.

How Does One Create Interest in This?

Initially, it is necessary to thoroughly promote the trade area analysis programs. Potential audiences need to be completely aware of the nature of the program and the significance of its future uses. After a few programs are presented, less and less promotional efforts are needed. In fact, after awhile the majority of the requests will come unsolicited from various community leaders. Often they have heard or read about a program being conducted in a neighboring community. Some communities prefer to have a analysis conducted annually as a method of holding interest and in checking progress.

Repeat programs for communities are relatively easy to prepare since the bulk of the work was done in the initial preparation. Also, local Extension personnel often feel comfortable in presenting the follow-up or repeat programs.

Advanced Methodologies

There are some cases where counties and towns are significantly different from the averages used in computing potential sales. Because of this, we have conducted studies using regression analysis to determine the effects of several variables on retail sales. For example, we have a county model that shows the impact of income, age, unemployment, shopping malls, and other variables on county sales.

County Model

Using cross-sectional data, a linear multiple regression model was developed to estimate county sales for 1980. The 15 most populous counties in the state were deleted from the data base. Therefore, the model used observations from the remaining 84 nonmetropolitan counties. The general form of the model was:

$$TR_i = B_0 + B_1 POPL_i + B_2 MICM_i + B_3 MAGE_i + B_4 UEMP + B_5 CITY_i + B_6 MALL_u + B_7 MEDO_i + B_8 MILO_i + E_i$$

Where: i = The ith county

TR = Total retail sales for the county in thousands of dollars)

POPL = County population (in thousands)

MICM = Median income for county (in dollars)

MAGE = Median age for county (in years)

UEMP = Unemployment rate for the county (in percent)

CITY = Population of largest city in county

MALL = Mall space within county (in thousands of square feet

MEDO = Mall space outside county, but within 25 miles of county seat (in thousands of square feet).

MILO = Mall space outside county, but between 25 to 50 miles distant from county seat (in thousands of square feet).

E = Disturbance term

Table 1 lists the coefficients and statistical measures for the county model.

Table 1. Coefficients for County Retail Sales Model, 1980

Variable	Constant	POPL	MICM	MAGE	UEMP	CITY	MALL	MEDO	MILO	R_2
County sales	-17.754* (25.645)	3,491 (339)	1.825 (0.642)	27.43* (529)	-1,629 (718)	0.070* (0.516)	75.00 (21.35)	-4.86 (0.87)	-0.610 (0.521)	0.897

*Not significant at the 80% level

Note: Values in parentheses are standard errors. The F Ratio (F = 81.2) is significant at the 99% level.

In lay terms, the interpretation of the regression results in terms of average annual sales (all other things remaining constant) is:

- An increase in population of one person, increases retail sales $3,491.
- When the median income in the county increases by one dollar, total county sales increase by $1,825.
- When the median age of the county population increases by one year, total county sales increase by $27,430.
- When county unemployment increases by one percent, county total sales decrease by $1,629,000.
- When the biggest city in the county increases in population by one person, total county sales increase by an additional $70.
- When a mall is present in a county, total sales for the county increase by $75 for each additional square foot of mall space.
- When a mall outside the county is within 25 miles of the county seat, county total sales decrease by $4.86 for each additional square foot of mall space.
- When a mall is 25 to 50 miles from the county seat, total county sales will decrease by 61 cents for each additional square foot of mall space.

Town Model

The county model gives some very useful insight into the effect of exogenous variables on retail sales. However, business people have a more urgent need for this type of information for specific towns and cities. In addition, it is sometimes useful to know the effect of certain other variables such as being located on an interstate highway, being a county seat town, etc. In response to this a linear regression model was developed to estimate town retail sales. Cross sectional data for 90 Iowa towns and cities with populations between 2,500 and 20 000, were collected for the 1981 state fiscal year. The general form of the model was:

$$TOTL_i = B_0 + B_1CITY_i + B_2MALL_i + B_3MEDO_i + B_4UEMP_i + B_5USHI_i + B_6RIVR_i + B_7SEAT_i + B_8MICM_i + B_9PROX_i + B_{10}INTR_i + E_i$$

Where: i = The ith town

TOTL = Total retail sales (in thousands of dollars) for 1981

CITY = The town population (in thousands)

MALL = Total square feet (in thousands) of mall space within the town

MEDO = Total square feet (in thousands) of mall space within a twenty-five mile radius of the town excluding the mall space within the town

UEMP = County unemployment rate (in percent)

USHI = Dummy variable
USHI = 1 for towns located on a U.S. highway
USHI = 0 for towns not located on a U.S. highway

RIVR = Dummy varisble
RIVR = 1 for towns located on a state boundary river (Missouri or Mississippi river)
RIVR = 0 for towns not located on a river

SEAT = Dummy varisble
SEAT = 1 if town is a county seat town
SEAT = 0 if town is not a county seat town

MICM = County median income (in dollars)

PROX = Measure of town proximity to the closest major town (population of nearest major town divided by distance squared)

INTR = Dummy varisble
INTR = 1 for towns located on an interstate highway
INTR = 0 for towns not located on an interstate highway

E = Disturbance term

Table 2 lists the coefficients and statistical measures for the city model.

Table 2. Retail Sales Coefficients for the Town Model, 1981

Variable	Constant	CITY	MALL	MEDO	UEMP	USHI	RIVR	SEAT	MICM	PROX	INTR	R_2
Town sales	-3,149* (13,129)	4,710 (438)	70.55 (19.82)	-3.12 (.855)	-354* (688)	4,674 (3,209)	-9,502 (7,449)	3,330* (3,209)	.851 (.675)	-2.96 (1.27)	-2,952* (4,361)	.744

*Not significant at the 80% level

Note: Values in parentheses are standard errors. The F Ratio (F = 22.7) is significant at the 99% level.

The simplified explanation of the regression results in terms of average annual sales (all other factors remaining constant) is:

- Each additional person added to the city population increases total sales by $4,710

- When a mall is introduced into a community, total retail sales for the city will increase by $70.55 for each additional square foot of mall space.

- When a mall outside the town is within 25 miles of the town, town retail sales decrease by $3.12 for each additional square foot of mall space.

- Each percentage point increase in unemployment will decrease total city sales by $354,000.

- If a city is located on a U.S. Highway, total retail sales should be increased by $4,674,000.

- Cities located on a state boundary river will suffer a $9,502,000 decrease in retail sales.

- If a city is the home of the county seat, city sales should be increased by $3,330,000.

- For every dollar increase in county median income, total city sales will increase by $851.

- The general interpretation of the PROX variable is that large nearly town will capture sales from the smaller towns.

- When an interstate highway runs near a town of less than 20,000 population, $2,952,000 will be lost from town sales.

Cautions

The results of the linear regression models need to be refined before actual use. Since the regression equations were for a fairly wide population range of counties and towns, some of the results need to be put on a per capita basis before use. Also a few variables are not highly significant and this should be considered before use. Above all, it should be kept in mind that these results were for Iowa, a very homogeneous agricultural state. Results for similar studies in other states could be considerably different.

Future Trends

As the general populace becomes more aware of the extent of retail sales migration, the interest in knowing the status of their own towns will probably heighten. Community development workers in states where no retail sales tax reports are published may wish to take steps to encourage their Departments of Revenue to publish such data. The marginal costs in publishing this information appears to be minimal, while the benefits can be great.

It appears that the patterns of retail sales migrating from the rural areas to the metropolitan areas is likely to continue in the midwest. With some exceptions, it is probable that towns below 1,000 population face bleak futures with respect to their business districts. Most likely they will retain some form of agricultural sales and service facilities. However, many will lose grocery stores, apparel stores, hardware stores, automobile dealers, banks, service stations, etc. Mini general stores or convenience stores will fill the voids left along main street.

It is likely that county seat towns will retain some degree of viability, depending on the size of the town. The smaller of these towns will likely suffer considerable leakage of sales in the shopper's goods categories to the larger shopping centers in the area.

One can only guess at the impact that futuristic marketing devices such as shopping via cable TV and electronic mail order might have on retailing. However, it could be that even the suburban shopping malls, so popular today, could face a decline if people find suitable alternative methods of shopping.

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ENTREPRENEURSHIP

Al Shapero*

Today I will discuss "Why entrepreneurship?" --"Who starts business, and under what conditions?" and "Can you do something about entrepreneurship when you are working at the local level?"

Why entrepreneurship?

First, let's define entrepreneurship. A lot of people are interested in entrepreneurship, but the definitions wander all over the map. It is important to ask a speaker, "what do you mean by entrepreneurship?" before you look at his/her data. There is a man I have quoted for years who is one of the most quoted on entrepreneurship, David McClelland. When I finally read him closely, I found that he would call a Russian steel plant executive an entrepreneur and would exclude the owner of a business. His definition excludes all those included by the majority of scholars in the field. McClelland is talking about managers, but calling them entrepreneurs.

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The word "entrepreneurship" comes from the French, but if you ask the French what they mean by an entrepreneur, they usually mean a building contractor. The Germans have the word "unternehmer" which means undertaker. Of course, many undertakers are entrepreneurs, but that is not exctly what we mean. Many have defined an entrepreneur as anyone who talks fast and breathes fast.

Economists were very interested in entrepreneurship until they got carried away with the idea of the big corporation. They began trying to find the entrepreneur in the corporation and lost him. Some defined corporate management as the entrepreneur. Anyone with powers of observation has got to know that is not true. Then one came to the conclusion that the corporation is the entrepreneur. The business historian, Grass, wrote that there are no more entrepreneurs, and that only corporations and corporate managers exist. Again this is silly. Drucker pointed out that when Galbraith was published to the effect that the world is now going to be run by the planners more new companies were formed in the United States than ever before.

Entrepreneurship Defined

It's hard to define entrepreneurship, and I have worked a long time to come up with a definition that one could use for research. I think the definition should not concentrate on the person, because then you start thinking of heroic people with special genes. Rather you should concentrate on the event, the entrepreneurial event? To me, something entrepreneurial occurs when you have the following conditions: (1) an individual or group takes initiative; (2) they bring together resources and form an organization to accomplish something; (3) they run it with relative autonomy; and (4) they succeed or fail with the event.

That definition goes far beyond the clearest example of entrepreneurship, company formation. It includes entrepreneurial events in corporations such as fully owned subsidiaries of corporations. It includes events in government. We studied what happens when there was a big cutback at the manned space center, and what happened to the top managers in the project. Some went into a catatonic state, but some reorganized their groups and went out to hustle contracts in competition with consultants. Show me a bureau, center, or institute at a university, and I will show you an entrepreneur who had to get away from his department and get an independent budget. Entrepreneurship happens in civic life. Some of the differences between communities that have been described at this meeting are proof that some communities have civic entrepreneurs -- people who put together a group of banks to do something or people who do something with the downtown area.

Why should we be interested in entrepreneurship? It will solve no short-term problems. You will not bring a 24 percent unemployment rate down to 14 percent by a program of entrepreneurship. Entrepreneurship is for the longer term where development has to do with the future existence and growth of a community.

Development Goals

As we reassess our economic development policy, it is important to consider the special vulnerability of highly specialized industrial cities and regions versus the greater resilience of local and regional economies that contain large numbers of small firms.

Contrasting Manchester and Birmingham, England in the mid-nineteenth century, architectural writer and critic, Jane Jacobs, sought clues to long-term community dynamism. She pointed out that knowledgeable writers of the period extolled Manchester as a paragon of efficiency and model of the future. At that time, Britain dominated the world in textiles, and Manchester, located near the great port of Liverpool, was the heart of Britain's textile industry. The coal, necessary pure water, and humid climate all made Manchester a natural hub of textile manufacturing. Supplementary and supporting industries, such as cotton-textile machinery and dye manufacturing, clustered nearby.

At the same time, according to Jacobs, Birmingham was "precisely the kind of city that seemed to have been outmoded by Manchester .... Birmingham .... had no specialty of the kind that made Manchester's economy so comprehensible .... But as it turned out Manchester was not the city of the future and Birmingham was .... Manchester had acquired the efficiency of a company town. Birmingham had retained something different: a high rate of innovation. Indeed, Birmingham and London are the only two cities in Britain today that retain a significant capacity to create new work from their existing work...." Jacobs' discussion of Manchester and Birmingham strongly suggests that the goals of economic development must go beyond "increased jobs and income." More jobs, more income, regional exports, and a substantial contribution to Britain's gross national product were not enough to sustain Manchester through time.

What Is Development?

Despite several decades of preoccupation with economic development, there is still no commonly accepted definition of what it means to be "developed." Today, development is determined by comparing one community to another in terms of gross output.

A more useful approach is to identify the dynamic qualities that differentiate communities that are self-renewing through time despite technological and economic change from communities that are not. What differentiates a Manchester from a Birmingham? What kinds of qualities in a community lead to the continuing formation of the material opportunities needed as markets and technologies change? These are important questions as we attempt to rekindle the self-renewing qualities of the U.S. economy and its older industrial "Manchesters."

The qualities that have distinguished Birmingham from Manchester, and which have characterized communities with long records of adapting to events, are resilience, creativity, initiative-taking and, above all, diversity. The ability to absorb abrupt changes in the economic, social, and political environment and to bounce back. The ability to generate anew and to experiment. The desire and ability to begin and carry through useful projects. A variety of enterprises that assure that no single event can effect the whole community--all simultaneously describe the self-renewing community. And all are characteristic of or generated by entrepreneurship.

Entrepreneurship and Economic Development

Entrepreneurship, as measured by company formations, is a positive response to the environment, an expression of resilience. Every company formation is a creative act and bears with it an innovation in terms of product, service, way of doing business, location, or appearance. Every company formation is the result of initiative-taking. Every new company adds to the diversity of a community, and the more widespread the kinds of company formations, the greater the diversity. A good case can be made that the number of company formations, the rate of their formation, the survival rate of new companies, and their diversity provide good measures of a community's capacity to renew itself.

Economic development policies and programs that measure their objectives solely in terms of jobs and income do little to achieve these qualities, often prevent their development, and tend to make a community hostage to the decisions of only a few firms. Typically, a city or regional development authority launches an intensive campaign to attract large industrial plants to generate jobs and income. Many concessions are offered to the companies being wooed, including tax breaks, free or cheap land, long term and low-interest loans, buildings, utility development, highway construction, and railroad spurs.

Yet, the probability of attracting a plant is not realistically considered and the consequences of attracting a major plant are not completely understood. One study conducted in the late 1950s—long before industry attraction efforts became as widespread as they are today—found some 16,000 development organizations competing for 200 available corporate moves at a cost of well over $250 million.

If the effort to obtain a plant succeeds, the incoming company will probably bring its own managers and highly skilled workers, while the community provides the low-cost, unskilled workers. A flow is set up in which the community's skilled, professionally trained youth leave for other cities while its unskilled youth are retained. An in-migrating company, attracted by cheap labor and low costs, can thus lower the net quality of a community's human resource.

With a large in-migrant company comes an enlarged work force and increased demand for municipal services such as policy and fire protection, education, and waste disposal. Since the incoming company has typically been given financial concessions, however, it is freed from paying its fair share of the tax revenues needed to provide these additional services.

Finally, the incoming company makes the community vulnerable. The community adjusts to the dominant source of jobs and income in the community and becomes hostage to it. This vulnerability becomes apparent when a distant, "objective" management decides to shift its production to a region with lower labor costs. In Ireland, for example, development officials have recruited some 250 foreign-owned plants that account for over 50 percent of the country's Gross National Product. Economic decisions affecting half the Irish economy are now being made in London, Frankfort, New York, and Tokyo.

Considering the economic and social consequences of dependence on a single crop, industry, or resource (be it a mineral deposit or cheap manpower), the extent of local development efforts to attract a single corporate division to employ "cheap" labor is surprising. A recent example of the long-term negative effects of importing industrial plants to a region can be found in the Mexican-American border program. In 10 years, the program attracted some 450 American manufacturers with the bait of low-cost labor. Now that wages are improving--they are still low by any standard--the companies are leaving for Central America, the Far East, and Ireland where wages are even lower. The years 1974-75 witnessed a 30 percent decrease in employment in the area, as 25 to 40 percent of the in-migrant American plants closed down, moved to other regions or severely reduced their operations, leaving serious social and political problems in their wake.

Instead of trying to attract branch operations of older, established firms, economic development policies should be more concerned with new and developing firms. They should aim at diversity and reduced dependence in any community or region on one or a few sectors of economic activity. Rather than concentrating on specific firms, they should focus on creating the ecological conditions conducive to new company formations.

Economic development policies emphasizing new firm formations rather than relocations provide a relatively lower risk, lower cost, actuarial approach that is less subject to failure because it is not project oriented. It is concerned with establishing conditions propitious to company formation rather than with financing and servicing specific plants or industries.

Who starts businesses, and under what conditions?

This year, in the United States there will be somewhere between 500,000 (as estimated by Dunn & Bradstreet) and 1,000,000 (my estimate) new company formations. These formations occur despite recession, high interest rates, inflation, uncertain economic prognoses, and the advice of worried relatives and dear friends. Each of the company formations is the end result of one very personal human process and the beginning of another. Though each company formation is a unique event, examination of the data of company formations in different countries, different time periods, and different economic sectors suggests a general pattern to the process and certain common characteristics no matter where it occurs. Though the pattern is highly complex and involves many variables, it is recognizable and describable. Having said the foregoing, however, it is important for all concerned to understand that the company formation process is what the psychologists refer to as "overdetermined," no single factor can account for the outcome of the process; that is, it is describable, recognizable, but it is not amenable to simple manipulation.

Each company formation or entrepreneurial event, is the result of two decisions: the decision to change from a given life path and the decision to start a company. To make a major change in one's life path is not a trivial affair, and it is seldom done casually. All of us are held on course by a myriad of forces; family situation, job, responsibilities, and the simple, powerful force of inertia. It takes a great deal of force in a new direction (or a summation of a host of small forces) to change from a given life path. The second decision, to start a company, is a choice of one from among the thousands of new life paths one might have chosen. After all, having decided to change one's life path the question must be asked, "Why this particular path rather than one of the others?"

The decision to change one's life path comes about as the result of personal displacement, usually through negative forces. Despite the fact that a majority of people will tell you that they would like to be in business for themselves, I have only encountered one person among the hundreds I have interviewed who had a deliberate, step-by-step plan for starting a company, and carried it out. There is nothing like a big kick in the pants to galvanize one into action. A tremendous number of company formations occur among refugees, people who've been fired, women experiencing the 'empty nest syndrome,' and people who are insulted or frustrated on their jobs. Of course, not all displacements are negative. We have companies started by people who are between things; men called back to the reserves whose careers have been disrupted, parolees, individuals who've just completed an additional degree. And there are the positive pulls of a friend who says, "Let's do it!" the customer who says, "I'll give you a contract," an unexpected windfall of an inheritance or a winning lottery ticket.

Having been displaced, however, why does anyone decide to start a company? After all, the conventional wisdom is that 90 percent of all new companies fail in the first year, times are terrible, and everyone knows that entrepreneurs have to work 100 hours a week. Why do this peculiar thing? The choice made of a particular life path is the product of two perceptions: the perception that a particular path is desirable and the perception that path is feasible. Unless one can perceive that a particular path is both desirable and feasible there is little chance that it will be considered at all or chosen if considered. Of course, the two perceptions are not completely separable. If something is perceived as very desirable, we may revise our estimates as to its feasibility and vice versa.

Perceptions of desirability—Perceptions of desirability have to do with values. A value is defined as a concept of the desirable. Our perceptions of what is desirable are the result of our placement in a matrix of culture, socio-economic structure, family education, peers, and influential persons. The broader culture in which we find ourselves conveys to its members what is considered desirable. Thus, the immigrant mother wants her son to be a doctor rather than a factory worker for she perceives the doctor as having a higher value in our culture.

The culture that places a high value on being in business, on entrepreneurship and/or the kinds of behavior associated with such activities such as initiative-taking, risk-taking, innovation, independence, is more likely to spawn company formation than one that doesn't. In the United States with its frontier tradition, the country of the second chance, the value system is loaded for entrepreneurship. Being in business for yourself is perceived as being something to be desired, and all of the associated behaviors are valued highly. It is not surprising that the annual rate of company formations is high. In Italy if a man of education starts a company, he drops socially. People wonder why a man of culture would do such a gross thing as enter into trade, and as you might surmise the Italian rate of company formation is very low.

Within a national culture there are many sub-cultures (regional, ethic, and religious) that add their increments to the individual's value system. The Smoeland region in Sweden is known for entrepreneurship. Similarly, the people from Cork are considered the most entrepreneurial in Ireland, the people from the Brabant in the Netherlands, and my Texas students seemed more likely than my Ohio students to think seriously about starting a business. There are many familiar ethnic and religious differences with regard to how entrepreneurship is valued. We all accept the fact that Jews and Lebanese are entrepreneurial, but they are only two among a host of ethnic and religious groups that show a high incidence of entrepreneurship. The list includes Ibos in Africa, Gujeratis, Jains and Parsis in India, the overseas Chinese in Southeast Asia, Antioquenos in Columbia, the people from Pyongan in North Korea, and Mennonites and Mormons in the United States.

The influence of family values in determining whether or not one perceives entrepreneurship as desirable is a dominant one, and, though a family exists within a particular culture, there are variations between families. One way to gauge the effect of family on the value attributed to entrepreneurship is to examine the data on the parents of company formers. Studies of company formations in a variety of industries and locations in the United States place the percentage of company formers found to have fathers/mothers who were independent (company owners, free professionals, independent artisans or farmers) between 50 to 58 percent. This compares with a census count of less than 12 percent of the U.S. population listed as self-employed. In a Northern Italian study, the percentage of entrepreneurs with independent parents was 56 percent. In Carrol's study of Filipino manufacturing entrepreneurs, the percentage was 74 percent; in Harris and Somerset's study of Kenyan entrepreneurs, 80 percent; in Harris's study of Nigerian entrepreneurs, almost 89 percent; Jones and Sakong's study of Korean entrepreneurship, almost 80 percent.

The data follow the same pattern in study after study and in culture after culture. Of Lipman's Bogotan entrepreneurs, 61 percent had independent fathers; Roubidoux's Quebecois 68 percent; Sayigh's Lebanese entrepreneurs, 74 percent; Hammeed's Sudanese industrial entrepreneurs, 70 percent; and Finney's Gorokans of New Guinea show a high incidence of fathers who could be interpreted to be relatively independent in terms of tribal position. Borland found that the variable most positively associated with a business student's declared expectation or desire to start a company was whether the student's father had been an independent businessman, farmer, professional, or artisan.

Other influences on an individual's value system include peers and influential others, those with whom the individual identifies. A rather dramatic example of the latter is the influence of the behavior and dress of popular rock stars on the values of some teenagers. Influential others include teachers, mentors, respected public figures, and writers.

Perceptions of feasibility—Whether or not an individual perceives a particular path of action as feasible is really a question of credibility. An individual must be able to realistically imagine him/herself going through the action of starting and operating a company for the act to be seen as feasible. Perceptions of feasibility come about as an amalgam of knowledge, resources, and the assurances that come from respected individuals or from observing the actions of others like oneself.

Know-how gained from personal experience in a particular business or from formal education contributes to an individual's perception of the feasibility of starting a particular business. Relevant know-how comes in different forms. Individuals tend to start business in the fields in which they have worked. People who work in small businesses or in small corporate divisions are more likely to start business than those who work in large ones; because they gain familiarity with the whole business process which makes the thought of starting a business much more feasible. Individuals, who have had customer contact, are found more frequently among those who start businesses than those who haven't; familiarity with the marketplace adds to perceptions of feasibility.

Obviously, the availability of resources is a powerful influence on one's perceptions of the feasibility of starting a company. The relevant resources included financial resources in the form of personal savings, credit, and equity capital, but relevant resources include equipment, tools, materials, and labor. Entrepreneurs work long hours because they are substituting their own labor for that of others; this is known as seat equity. The personal labor of the entrepreneur is a substitute for money.

Perhaps the most powerful influence on perceptions of the feasibility of forming a company comes from the observance of others like oneself who have formed companies. To see someone like yourself do something makes it much more likely that you can imagine yourself doing the same thing. Once Roger Bannister broke the four-minute mile that apparent barrier was surpassed by others within months. It is no accident that such a high proportion of entrepreneurs have parents who are independent, worked for small businesses, had peers who started businesses. or are members of regional, ethnic or religious groups indentified with entrepreneurship. This is not a classical case of rule modeling. It is rather a case of seeing someone like yourself who did it who is no better than you are. Hundreds of interviews have elicited the statement, "By gosh! If he can do it, anybody can do it." "I did everything the boss did except take home the profits." "I went to school with him, and you'd have to have a part of your brain removed to be as dumb as he is. If he can do it.." What Jewish or Lebanese kid doesn't have at least one stupid relative in business? If he can do it....

Summarizing the company formation process—The company formation process is one that begins with a situation in which an individual or group of individuals is forced from or decides to change to a new life path. The situations are as varied as life itself, but more people respond to negative displacements than positive ones. A particular situation, however, elicits different responses from different individuals. Among a group of refugees, one person might respond to the situation by resignation while another undertakes the formation of a company. The choice of response is a product of an individual's perceptions of the desirability and feasibility of various alternatives, and those perceptions are influenced by the individuals' cultural antecedents, family, peers, education, and experiences.

The company formation process is nicely shown by considering the fact that many successful entrepreneurs have tried and failed at least once. Henry Ford failed completely twice. Consider the individual who has failed in an entrepreneurial venture. That failure is a major displacement in the failed entrepreneur's life path, but now the individual has learned a great deal about the desirability and feasibility of being an entrepreneur. It is common to find three years after a failure that the entrepreneur is ready for another venture, and this time there is a higher level of know-how (e.g. "I'm going to lease everything"). This time there is a different level of perception of the desirability of being in business for oneself (e.g. "I can't really work for anyone else anymore").

Entrepreneurial Psychology

I have said nothing of the psychology of entrepreneurs. It is not by oversight. The more I study entrepreneurs, the more I am impressed by the great variety of kinds of people who are entrepreneurs, and the more I find it difficult to be satisfied with simple psychological profiles. Entrepreneurs are not born, they are developed. The great majority of people are capable of being made more entrepreneurial.

If I had to pick the dominating motivation of the entrepreneur, it is independence. Ask a complaining entrepreneur how much money would make him opt to be a manager, and 50 percent will reject the thought out-of-hand, while the majority of the remainder will name some ridiculous figure like five to 100 times current earnings, and mention, by the way, "And I'm in charge." Entrepreneurs are characterized by a strong internal locus-of-control, that is they see themselves as being in control of their own lives (but so do managers). Entrepreneurs are also characterized by a high tolerance-for-ambiguity; an entrepreneur can issue checks on Friday and spend the weekend scurrying around to find money to cover the checks. Entrepreneurs are denoted by high energy levels. But many of these characteristics are learned behaviors.

What Can Be Done About It

There are very direct ways in which a community can enhance entrepreneurship. Think about the company formation process. More companies are generated out of small businesses than out of large ones. By attracting desirable small businesses instead of corporate divisions to a community you can raise the probability of new companies forming as well as acquire the requisite diversity that makes a community invulnerable to unexpected events. The more small businesses in a community, the more likely it is that you will have more formations. Communities have been missing a golden opportunity to attract the best of the country's small businesses with the lure of financial support during this period of cash flow problems by offering them the kind of financing we offer the Hondas, Chryslers, and International Harvesters.

Once the company formation process becomes apparent in a community, the more likely it is that new companies will form. Small companies beget more companies, and company formations trigger more company formations. There is often an epidemic quality about the process. It is no accident that we witness flurries of spinouts from major corporations. Each spinout becomes a credible example to the people left behind. Each observed formation serves the same purpose for others in the community. It is a pervasive feeling of entrepreneurship going on 'all around' which denotes Midland, Texas, and helps to explain the numbers of company formations found there.

The local economic environment, particularly the way a community's financial people respond to new and different companies, has a critical impact on whether or not new companies will be formed. In several studies comparing growing and stagnating cities, we found a distinct difference in the way local bank loan officers and investors responded to requests for loans and requests for investments in new and different companies. Lively cities had lively financial people. In the lively cities (and banks), financial people were far more likely to take an active interest in new and different companies than those in cities that were not growing. Lively cities were denoted by an orientation towards success rather than an interest in hedging against failure. There was a distinctly greater readiness to lend or invest in new and different companies coupled with a requirement for far less security in the lively cities. There was a far greater tendency to take an active part in structuring a new business to succeed in the lively cities. In the stagnating cities investors were far more reluctant to lend or invest, and had a tendency to structure loans and investments for maximum security in case of failure.

A financi l environment can be modified, particularly at the local level. Most loc kers, like most people in any field, tend to stick to the kinds of things with which they are familiar. However, local bankers would really like to be more responsive than they are given credit for, and the attitudes and practices of local financial people can be influenced through awareness and education. Where the local financial community is not amendable to change it may be possible to invite in others from the outside.

The primary effects of the political-legislative-administrative environment on entrepreneurship is negative. Political ideologies are expressed through law and regulation, and they, in turn, act to prevent entrepreneurship or make it difficult. The clearest examples are found in totalitarian states, especially those in the Communist orbit. Where businesses are forbidden by law, entrepreneurship is drastically reduced and pushed into the underground, and every Communist country has a large, underground entrepreneurial economy; in fact they can't function without that second economy. Where entrepreneurs are considered with suspicion or contempt, and that is translated into taxes or regulations that severely curtail the possibility for company formation, formations are very few indeed. Many Third World countries fall into the latter category, but so do highly developed countries like those in Scandinavia.

Unfortunately, efforts to positively influence company formations through modifications of the political-legislative-administrative environment have not proven to be very effective. The experience of the past several years with interventions ranging from set-asides to direct financing has not been very encouraging. For example, despite extensive efforts there has been no significant enlargement of the pool of minority business. The political process has been used with some success to remove legal and administrative barriers to entry (e.g. anti-trust legislation) and to structure taxes to make investment in new businesses more attractive, but the resulting effects on company formations have yet to be demonstrated. Economists and politicians are constantly pressing for policies and legislation that would provide incentives for investment in new businesses, but there is little evidence that they have affected the rate or volume of new company formations. To illustrate, we presented an investor with a set of investment situations and asked what the effect of a tax policy permitting rollover of capital gains from one investment to another would have on his decisions? The answer was very revealing. He stated that he favored the policy in general, however, it would not change any of his specific investment decisions!

There is an area that lies between the economic and political elements in the environment. Public bodies can make resources available in the form of various kinds of financing, but public bodies tend to be incompetent financers of private sector ventures. The record is replete with the creation of public institutions to finance "risky" new businesses. Invariably they become more conservative than private investors because of the necessary requirement to defend their decisions before legislatures with amnesia. Public resources in the form of abandoned military bases, empty schools or municipal buildings, and closed down plants can be supplied as incubator facilities to entrepreneurs or small companies from other areas. Sometimes the purchasing power of public bodies can be used to help desirable new companies to get established, but, here again, the record is not too encouraging.

CASH TRANSFERS AND COMMUNITY ECONOMIC DEVELOPMENT

Gene F. Summers and Thomas A. Hirschl*

Introduction

The practice of deferral of earned income among wage earners was institutionalized by government-administered retirement progams and private pension programs in the 1930s. In Europe this movement began earlier but in the United States it became formalized as part of the "New Deal." By the 1960s, the deferral of earned income to age 65 involved enough people that it became a significant force in American society.

Older citizens are guaranteed a right to consumption based on the deferral of income from earlier years of employment. Moreover, they are free to exercise that right in any community of their choice. Many have chosen the warmer climates of the South and Southwest, but they account for only a small percentage of the growing cohort of

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"retired persons." The nonmetropolitan countryside has been the preferred destination of those leaving major urban centers. The residential preferences of this growing and reasonably well-financed segment of American society have contributed to the population turnaround of many rural communities (Beale, 1975-1976; Biggar, 1979; Ploch, 1978; Sofranko and Williams, 1980; Williams, 1980; and Voss and Fuguitt, 1979).

Retirees with their deferred incomes are the equivalent of a major new basic industry for some communities. Bluestone reports that between 1968 and 1975 there were 1,010 counties where the leading source of income growth was net cash transfer payments (Bluestone, 1979), approximately one-third of all U.S. counties. The impact of this trend is further strengthened by the fact that approximately half of the retirees have additional income from property, investments, private pensions and other nonwage sources. For example, Hewitt and associates found that in two Wisconsin counties, 80 percent of the retirees had Social Security cash transfer income, 62 percent had investment income, 46 percent had job pension income and 47 percent had other forms of nonwage income (Hewit, et al, 1968).

The importance of transfer payments and related nonwage income receives much of its strength from the demographic processes which are reshaping population characteristics in developed nations. Life expectancy is increasing and a larger percentage of people are living to retirement age. Moreover, those who reach retirement are living to "enjoy" more years of their earned leisure, financed by deferred income and property incomes.

Figures released by the Population Reference Bureau, Inc. (1982) show quite clearly the aging of populations in developed nations. In aggregate, the "more developed" regions and countries of the world have 11 percent of their population 65 years of age and older. In "less developed" regions, the figure is 4 percent; and if China is excluded, it is 3 percent. In North America, the elderly make up 11 percent of the population; in Western Europe, 14 percent; in Northern Europe, 14 percent; in the USSR, 10 percent. By contrast, those 65 and over constitute only 3 percent of Africa's population, 3 percent of Middle America, 3 percent of Tropical South America, and 3 percent of South East Asia.

There is also a fundamental restructing of the economies of developed nations which can be seen as a shift from goods-producing to nongoods-producing activities. While it most certainly is true that developed nations will continue to extract natural resources from the land and process some of them into consumable commodities, these activities no longer dominate the economic landscape. Future growth in developed nations will not come from these traditional sources of employment. In fact, many traditional goods-producing industries are already in absolute decline as employers and others are barely holding their own or even growing at less than the national rate. The United States is not alone in experiencing this shift.

A recent study by James N. Ypsilantis of the International Labor Office in Geneva shows that in 12 of 14 industrialized nations there was a decline in agricultural employment over the decade of

1972-1982. Japan lost 1,980,000 agricultural jobs, 729,000 disappeared in France, 520,000 in the Federal Republic of Germany, 151,000 in Finland, 79,000 in the United States, 62,000 in the United Kingdom, 47,000 in Sweden, 42,000 in Belgium, 37,000 in Norway, 36,000 in Switzerland, 28,000 in Australia, and 17,000 in the Netherlands. Only in Canada and New Zealand was there an increase in agricultural employment, 43,000 and 12,000 respectively.

Mining was more mixed, perhaps reflecting the thrust toward greater energy independence following OPEC actions in 1973. In the United States, Canada, Australia and Norway, there was a rise in mining employment, ranging from 513,000 in the United States to 4,000 in Norway. New Zealand was unchanged. In the other nine developed nations mining jobs were lost.

Manufacturing also had a checkered gain-loss pattern over the decade; five nations gained in manufacting employment and nine lost. The largest gainer was the United States, 1,874,000 jobs, followed by Canada with 297,000. Considerably below that were New Zealand with 29,000; Japan gained 20,000 and Finland 14,000. The most severe decline was in the United Kingdom where 1,747,000 manufacturing jobs disappeared. Losses in the other nations were quite substantial: 683,000 in the Federal Republic of Germany, 536,000 in France, 275,000 in Belgium, 163,000 in Switzerland, 121,000 in the Netherlands, 73,000 in Australia, and 57,000 in Sweden.

In marked contrast, employment increased in all branches of the service sector of the 14 nations covered by the ILO study. Community, social, and personal services were the most outstanding providers of new jobs. They created work for 7,236,000 people in the United States with the smallest gain of 56,000 being recorded in New Zealand.

Retail trade, restaurants, and hotels together ranked second as a source of new employment. Again, the United States had the largest growth, 3,951,000 new jobs, and the smallest gain in this service sector occurred in Switzerland with 7,000 new jobs. Financing, insurance, and business services also contributed in large measure to increased employment. Over the decade under review, 2,827,000 additional American workers found employment in this sector, 1,830,000 Japanese; 481,000 French; 269,000 British; 210,000 Canadian; 156,000 Australian; 120,000 West German; 100,000 Dutch; 68,000 Swedish; 53,000 Finnish; 51,000 Belgian; 37,000 Norwegian; 28,000 Swiss; and 23,000 New Zealanders.

For the United States, the balance sheet of traditional, goods-producing versus service-producing sectors overwhelmingly favors the latter. Service sector employment grew by 14,014,000 from 1972 to 1982 while the combined gain from agriculture, mining and manufacturing was 2,308,000.

It is in the context of these major facets of the restructuring of developed nations that we shall consider cash transfer payments and community economic development.

<u>Cash Transfer Payments in the U.S.</u>

Major Income Source

Cash transfer payments are an increasingly important source of personal income in the United States. These payments include social security, medicare, military retirement, unemployment insurance, and public assistance. A recent report by Hoppe and Saupe (1982) indicates that in 1950, transfer payments accounted for about 7 percent of U.S. personal income, by 1960, the share had risen to 9 percent and by 1977 almost 14 percent. In nonmetropolitan areas the percentage was even higher, 16.1 percent. When nonmetropolitan areas are divided by regions, as defined by the U.S. Bureau of the Census, the portion of personal income from transfer payments is over 20 percent in the mid-Atlantic and East South Central (Briggs and Rees, 1982). Because of their size and growth, it is imperative when considering community economic development that particular attention be given to cash transfer payments.

Bear in mind that communities where transfer payments are a large share of personal income are not "welfare havens." Public assistance payments do not exceed two percent of personal income in any region of the nation. Retirement and related programs made up two-thirds of the transfer payments. Half of all cash transfer payments in 1977 were made through general retirement programs, i.e., social security and medicare. Specific employee retirement programs contributed another 16.4 percent.

The difference in dollar volume between retirement and public assistance programs is not the only factor distinguishing them. Public assistance is an income maintenance instrument and usually payments are at a minimal level, on the assumption that interruptions in income earnings are temporary. Therefore, communities with substantial public assistance payments are likely to be experiencing employment declines. Consequently, public assistance payments are not properly seen as potential development instruments. By contrast, transfer payments which come from deferment of income usually involve larger per capita payments and often recipients also have property income. When considered in aggregate they constitute a substantial proportion of total personal income and communities with a high proportion of income in retirement transfer payments do not suffer from reduction in per capita income. Consequently, transfer payments from deferred income funds and linked property income often constitute a source of money for economic development.

When other sources of unearned income, such as dividends, interest and rent, are added to cash transfers, a startling reality results. Unearned income accounted for 31 percent of total personal income of the nation in 1977 (Briggs and Rees, 1982). "The nonmetropolitan areas of North Dakota, Nebraska, and Massachusetts gained over 40 percent of their personal income from investment sources and transfer payments in 1977." (Briggs and Rees, 1982:1661) In the fringe counties of large Florida SMSAs the percentage was above 50.

Communities receiving transfer payments can expect that approximately an equal amount of "investment" income will be added to the local economy because the recipients of transfer payments generally have other sources of unearned income. There is regional variation in the ratio of investment income to transfer payments, of course. In the old industrial belt, Appalachia and parts of the "old South," transfer payments exceeded investment income by 5 to 10 percentage points. But in most states of the West North Central region investment income exceeded transfer payments, i.e., Iowa , Kansas, Minnesota, Nebraska, North Dakota and South Dakota. Even so, transfer payments accounted for 15.8 percent of personal income in the nonmetropolitan areas of the region as a whole. The point to be noted is that cash transfer payments are associated with other nonwage incomes and can make a significant contribution to the income and job-generating capacity of many local economies. Briggs and Rees (1982) conclude that "the heretofore unexplored role of unearned income (including transfer payments) has grown in the 1970s as a direct stimulus to nonmetropolitan development (p. 1665)."

Jobs Follow People

Jobs follow people, especially people with money. For many years economic geographers have had the idea that people follow jobs. While sometimes that is an accurate description of migration patterns, its obverse is also true and often overlooked. An aging population, which generates more retirees with reasonable incomes who chose to live in nonmetropolitan areas, can shift the demand/supply ratio for consumer goods and services making rural communities strong markets. Transfer payments are a significant element shaping the demand. Where the demand/supply ratio becomes favorable, other sources of capital and labor often follow, stimulating economic growth and population revitalization through net migration of younger adults.

A recent study by Fuguitt and Tordella (1980) provides data which lend support to the idea that jobs (and younger people to fill them) follow retirees. In 1950-60 the nonmetropolitan areas of all four major census regions of the United States had a negative net migration of persons of all ages. By the decade of the 1960s this net migration had turned positive for persons 65 and over. Nonmetropolitan areas were gaining more retirees than they were giving up to metropolitan areas. But the net migration remained negative for persons less than 65 in nonmetropolitan areas of all four regions. However, from 1970-1975 the net migration of persons less than 65 became positive and nearly equal to the rate for the 65 and over component. Thus, it appears the migration of working age families lagged behind the retirees by several years, which can be interpreted as a typical supply response lag.

Job Creation Effect

Further evidence of the importance of transfer payments, and other nonwage income, for community economic growth comes from studies by Harmston (1979), Doeksen and Lenard (1980), Smith et. al (1981), Hirschl and Summers (1982), Bain (1982), and McNulty (1977). All these analyses are concerned with the impact of transfer payments on local markets and thereby reveal some of the internal dynamics linking transfer payments to job creation.

The first two reports are case studies of the impacts of an elderly population on rural communities. In his study of Vandalia, Missouri, Harmston (1979) found that retirement cash transfers constituted a substantial basic industry representing a net money flow into the local economy and that these transfer payments had a multiplier effect of 2.22 on the local economy. "For this particular small community retired people represent the equivalent of a substantial export industry. Their impact could be enhanced at least a third by appropriate local action to cut down on leakeage of their expenditure." (1979:12)

Doeksen and Lenard (1980) demonstrate that the elderly in a Central Oklahoma community generated about $10 million income in a community whose total population was estimated at 8,358 with 1,754 persons 65 and over. Net direct income added to the local economy by the elderly was calculated to be $5,049,652. By applying a multiplier of 1.94, the total effect was estimated at $9,947,814.

Three other studies of the impact of transfer payments employed the regression type economic base multiplier model. Smith and associates (1981) developed an estimated a regression economic base model which included all sources of employment and transfer payments, "except those profits, interest, and property incomes derived from external investment, income in kind, private transfers, or gifts" Smith et. al., 1981:19-20). Data from 110 nonmetropolitan Kentucky counties for 1970 were used to estimate coefficients. They report that "one job results from each $4,425 of income transfer." (1981:20) However, this effect may be somewhat overstated because the model does not isolate associated transfers of in-kind income such as food stamps and medicaid benefits and excludes some property incomes known to be associated with transfer payments.

Hirschl and Summers (1982) estimated a model using only four major employment sectors and found similar results. The basic employment sectors were agriculture, manufacturing, inter-governmental transfer payments, and Old Age and Survivor's Insurance (OASI) revenues (the major component of Social Security payments). The dependent variable was nonbasic employment change. The model was estimated using data from 170 randomly selected nonmetropolitan U.S. counties for the years 1959-1970. The results indicate that $3,984 in OASI payments are sufficient to create one nonbasic job in the local economy whereas $91,743 in manufacturing payroll or $64,516 in agricultural payments would be needed to produce the same job. As with Smith et. al, the authors caution that the effect may be overstated because of associated income (transfer and investment) not explicitly specified in the model.

Bain (1982) made a multiple regression analysis of rural counties in Wisconsin over a 15-year period to access the associated changes that retail sales had with changes in transfer payments, earned income, and property income. The results show that growth in retail sales are associated with transfer payment changes by a factor three times greater than either of the other types of income.

In a time series analysis covering a 19-year period, McNulty (1977) also reports positive effects of cash transfer payments on income gains in service sector income changes. However, the regression coefficient for property income was approximately twice as large. Since the data used came only from metropolitan areas and Smith et. al (1981) have shown that multipliers are sensitive to the size of community, some caution is in order.

In spite of limitations unique to each of these studies, they all point to a similar conclusion. Cash transfer payments are potential economic development instruments for local communities. Together with investment income they are a source of money community development planners must come to reckon as part of a community's economic base.

Capturing Transfer Payments

Transfer payments, and associated investment income, are nearly one-third of the total personal income in the United States. Any serious effort to achieve community economic development must consider these funds. Studies clearly document the potential positive effects of transfer payments on local employment and induced income generation. Thus, to incorporate these resources into a comprehensive community economic development plan, it is important to consider methods for capturing transfer payments.

There are at least four ways that transfer payments can positively affect a local economy. They can directly increase the demand for goods and services in local markets. They can be used directly as a source of investment funds for local enterprises. Aggregated regionally and nationally, they constitute a growing market for exportable goods and services. Similarly, in aggregate they are enormous capital pools, which can provide development funds for local projects.

Capture Consumer Spending

When considering transfer payments and property incomes as a money supply for community economic development, the typical mental path leads immediately to the goods and services demanded by local residents who are "on social security and pensions." And this is a proper response given the increased number of retirees in most local communities. These people do demand housing, health services, retail items, personal services, and banking services. Studies of consumer spending behaviors show convincingly that elderly people spend more of their income on these items than the nonelderly. Moreover, they are more inclined to make their purchases in the local market whenever the supply of desired goods and services is available (Doeksen and Lenard, 1980; Harmston, 1979; Bain, 1982, and Le Baron, 1982). By making the community more livable for elderly persons, more of these dollars could be captured in the local economy.

The question of how to capture these transfer payments is a standard market analysis problem. What goods, services, and investments are purchased by recipients of transfer payments? Where are these purchases currently being made? Are there unmet needs of these persons which are sufficient to encourage entrepreneural activity?

52-112 O - 85 - 20

Many communities already are responding to the opportunities with a variety of creative marketing efforts which meet the needs of the elderly and at the same time stimulate the job and income generation processes. Home delivery of all sorts of services is one arena of innovation (or is it rediscovery of long discarded marketing techniques). For example, retirees in many communities can now obtain laundry pick-up and delivery, grocery delivery, hot meals, hair dressing, barbering, house cleaning, reading of newspapers, magazines and books, and other personal services in their homes. Health services also are available in many communities on a home delivery basis. The "visiting nurse program" has been quite successful in this regard. But there is much more opportunity for expansion which requires as a first step, the recognition that home delivery of health services is not just for "old people on welfare." The vast majority of retirees are well above the poverty line and many of them need and would benefit from home delivery of more para-medical services.

Mass communication can be used creatively to enhance retail shopping by elderly who find mobility a constraint. For example, in Sauk City-Prairie du Sac, Wisconsin, the local radio station has a regular morning show where listeners can telephone to offer goods and services or to solicit them. Participants include many elderly persons, as well as local merchants and other community residents.

Housing developments for the elderly can be much more than the traditional "old folks home." Many communities have condominium complexes which incorporate most essential basic services. One such development in Cape Girardeau, Missouri is a fine example. One roof covers the condo-apartments, grocery, barber/beauty shop, florist-car-sundry shop, pharmacy, cafeteria, chapel, a hospital wing, recreation facilities, and a management office providing assistance with a wider range of personal needs. This is hardly an "old folks home," even though the residents are all retirees; neither is it a high-rise condo-complex with stereotypical impersonal relations. It is an embryonic community.

The opportunities for creative and imaginative marketing efforts to provide the goods and services desired by local, retired residents are expandable. We believe the potential has not been exhausted; no where near it. However, the income and job-creating capacity of transfer payments directly in the local consumer market is limited. But, there are other ways community economic development planning can capture transfer payments.

Form Local Capital Funds

In 1980 the American Association of Retired Persons (AARP) created the AARP Money Market Trust as a service to its members. Two years later, the trust was the fourth largest of its kind in the United States with assets of $4.1 billion. There were 650,000 investors with an average holding in exceess of $6,500. These are investment dollars that are siphoned out of local economies and because of the portfolio of money market funds, very little of this capital flows back into local economies and when it does, the cost of capital has risen several points.

Capital shortages and insufficient capital formation is fundamentally a myth. The problem is more distributional in character, spatially and sectorally. To some extent, increased availability of capital for local enterprise development requires changes in banking and taxation policies which will make the creation of local capital funds competitive. Some of these necessary modifications are already underway. But even with the implementation of favorable banking and taxation policies, psychological constraints will remain.

Therefore, one of the challenges to community economic developers is to find techniques of persuasion and cognitive redefinition to awaken local investors to the possibilities of forming local capital funds for use in their own community. The local banker and savings and loan manager would be an early convert, but not necessarily the first. Local entrepreneurs need to believe their enterprise is a worthy investment and be prepared to demonstrate the soundness of their enthusiasm. Hence, the road to capturing transfer payments by forming local capital funds leads one through a consideration of business expansion possibilities and new business formation potentials.

Think Globally, Act Locally

In the aggregate, regionally and nationally, recipients of transfer payments and property incomes are a strong consumer market and a significant capital funds sources. From the standpoint of any particular community, economic development planning should go beyond thinking only of those transfer payment and property incomes received by residents of that community. It is when they are viewed collectively, across communities, states, and nationally that their real potential is revealed. One must think of transfer payments and nonwage incomes in these global terms in order to take effective local action.

Transfer recipients are consumers of goods and services and while there may be too few in any single community to support a locally oriented enterprise; collectively they are a substantial export market. Many of the goods and services consumed and used by retirees, the elderly and other recipients of transfer payments originate from regional centera. And these need not be large cities. There is no particular reason why a nationally circulated magazine for the elderly must be published and produced in New York. It could be done just as well in Baraboo, Wisconsin. One could make the same argument for virtually all the exportable good and services destined for the transfer payment recipient market.

The crucial point is to recognize the fact that transfer payments and linked property incomes are one-third of personal income nationwide. Therefore, when thinking about attracting new basic industries or expanding existing firms, one ought to remember that this market is enormous and still growing.

Pension funds are gigantic capital funds sources which community economic developers should identify and study carefully. Even though the fund office is in New York, Pittsburgh, Houston, or Detroit, there is no reason to assume, a priori, that fund managers are disinterested in development projects in Potosi, Rhinelander, Council Bluffs, or Billings. While managers may have been reluctant to consider small-scale community economic development projects in the past, there are trends toward decentralization of people, political power, and economic activities and toward encouragement of self-help. The managers of pension funds have not escaped the pressures of these trends.

In Wisconsin, the State Employees Retirement Fund is now committed to dedicating $10 million annually to economic development within the state. Such projects have a physical reality which means they will be located in some Wisconsin community or, more probably, several communities. The message to community developers in Wisconsin is clear. Communities with informed and assertive leaders have the best chance of capturing these funds.

Another example comes from Missouri. The Community Mortgage Trust has recently been formed in St. Louis as a joint venture of the Homebuilders Association and the Mercantile Trust. The objective is to bring together pension fund officials and home mortgage lenders. According to Beth Van Houten of the Federal National Mortgage Association, this is "the first time there has been a concerted effort to bring various lenders together with various pension funds and to try to mix and match their needs." (AARP News Buletin, January, 1983, P. 9)

To capture more of the transfer payments and organize them for community economic development, it is essential that one think globally and act locally. National and regional trends in the size and structure of transfer payments must be studies to identify potential markets and capital sources which can be translated into local economic development strategy.

Closing Comment

Current attempts by the federal government to reduce transfer payments are not likely to significantly reduce them as a component of personal income. Public assistance programs account for only 2 percent of total personal income, roughly 15 percent of all federally funded transfer payments. Most cash transfers are retirement payments and default on obligations to pay deferred income would be politically untenable. Thus, in the currently proposed Reagan budget, these programs make up 27.1 percent of the national budget, down from 27.6 percent. And it appears Congress may be in a mood to restore some of the proposed reduction.

Cash transfer payments, property income, and other nonearned incomes are a significant factor in the American economy. Any comprehensive community economic development strategy must take that fact into account.

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RURAL DEVELOPMENT RESEARCH PRIORITIES FOR THE 1980s

Kenneth L. Deavers*

Discussions at this conference have already made it clear that the context for research on rural community development is different in the 80s from what it was for nearly three decades. Since, in my judgment, that context significantly affects the research agenda before us, let me summarize some important dimensions.

Rural Growth

I realize we are meeting in a part of the country which has not shared in a major way in the "Rural Renaissance" of the 70s. Yet, in characterizing the future of rural America today, it seems to me that growth, not decline, is what is likely. When asked whether it is likely that the 70s are an aberration, and that we should continue instead to use earlier periods as our guide to internal migration behavior, and hence to population distribution, Calvin Beale has (cautiously) answered "no." He bases that on the strength of the factors that gave rise to the population turnaround, including:

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(a) economic decentralization, (b) preference for rural living, and (c) modernization of rural life. And, it should be noted that the surplus labor pool in agriculture, from which many rural to urban migrants originated, is now largely depleted.

As implied by Calvin, recent rural growth encompasses more than simply improved population retention and significant net inmigration from larger urban areas. At least as important are the growth of nontraditional rural industry and the growth in size and complexity of rural government.

In recent years, manufacturing has decreased as a source of nonmetro employment, from 29 percent in 1973 to 24 percent in 1981. During the same period, service-producing industries increased from 40 to 44 percent of all nonmetro wage and salary jobs. In fact, over half of all new jobs added in the nonmetro sector during 1973-81 were in service-producing industries.

The size and complexity of rural government has also increased during recent years. During 1972-77, local government expenditures and resources increased (on a constant dollar basis) in both metro and nonmetro areas--with the increase being greater among nonmetro governmental units. In fact, nonmetro government expenditures increased twice as fact as those of their metro counterparts during the period. Local government employment also increased in both metro and nonmetro areas, with the nonmetro rate of growth substantially greater than in metro governments.

Rural Diversity

Rural and urban once comprised a useful dichotomy. Distinguishing characteristics involved more than scale. For rural areas, there was a shared dependence on agriculture and extractive industry. (One result, of course, was personal income levels much below those enjoyed by urban residents). But the essence of rural, in my judgment, was not its economic base. Because rural areas were relatively isolated, and because movement of people was largely away, they were likely to be more socially and culturally homogeneous. Thus, they shared important views about the amount and kind of government, about limiting its role in everyday life, and about the predominant role of family and religion in shaping behavior and beliefs. The shared values and isolation of rural areas meant that individual independence and self-reliance were the hallmark of being rural. This meaning of rural is deeply imbedded in the American conscience, and rural fundamentalism remains a powerful social and political force. However powerful this view of rural, its relevance to public policy in the 80s is questionable.

For example:

- Analysis of rural population change in the 70s shows that more than 600 counties grew at a compound annual rate of 2.0 percent. Rates of growth this high are more typical of developing nations, usually resulting from high birth rates. But in the United States, only in Alaska and some Indian and Hispanic areas of the Southwest is the population growth significantly influenced by high fertility. Elsewhere, it results primarily from inmigration. Often these inmigrants bring with them a set of values and expectations at odds with the local rural community.

• Rural self-reliance remains an important value, evidenced in part by the continued importance of individual entrepreneurs (sole proprietorships) among rural business. But, during the 70s, net transfer payments were the largest source of personal income growth for rural areas. In fact, by 1979, transfer payments (principally Social Security) accounted for 12 percent of total personal income in rural areas. Dependence on transfer payments as a source of income is particularly great in the South and Northeast.

• The belief that rural areas are immune from national crime trends has proven false. As urban crime rates began to rise during the 1960s so did rural crime rates. By 1973, reported crime in nonmetropolitan areas exceeded the 1960 metropolitan rates. It is still true that the more rural an area, the less crime it has, but in even the most rural counties, property crimes reported to the police now equal the 1960 national levels.

Rural Equity

Federal policy designed to assist rural people and areas have been a response to perceived and actual rural disadvantage. The picture of rural America, with many of its citizens poor, undernourished, undereducated, ill-housed, denied access to essential public facilities and services, was painted vividly by the Poverty Commission in its 1968 report, "The People Left Behind." But public awareness of the plight of rural people, especially farmers, had long before served to stimulate and shape public policy, e.g., during the days of the Dust Bowl and Great Depression.

Poverty remains a serious problem for many rural Americans, with roughly 12.5 million rural poor in 1981, nearly 39 percent of the nation's total poor. Nevertheless, in most of rural America there has been enormous social and economic progress.

For example:

- Only 30 years ago substandard housing (housing that is either overcrowded or lacks some or all plumbing) constituted a substantial majority (59 percent) of all rural housing. Using that same measure of housing quality (which allows for no changes in tastes and preferences for housing), the 1979 Annual Housing Survey shows that only 5 percent of rural housing is substandard.

  In fact, examining the incidence of substandard housing from the 1979 Annual Housing Survey shows that only 15 percent of nonmetro middle income homeowners spent over 30 percent of their income for housing compared with 49 percent of very low income owners. Comparable figures for nonmetro renters were 36 percent and 78 percent. It seems to me that we no longer have a general rural housing problem. Rather, we have a rural poverty population whose problems include inadequate affordable housing, along with other symptoms of poverty.

• For many years, discussion of rural disadvantages has included credit availability high on the list. While there were significant institutional innovations and programs adopted to serve the "unique" credit needs of agriculture, nothing so sweeping has ever been so successfully pursued on behalf of the rest of rural business and industry—although various forms of a rural development bank have surfaced occasionally on the Hill. In recent years, the concern about a rural credit "shortage" has extended to rural governments, again without significant new institutions (or mechanisms) being legislated to solve the problem. Does the failure to create, for other rural business and rural governments, an analog to the farm credit system and federal farm lending programs represent an unresolved rural inequity?

In my view, there is little substantive research evidence to support an affirmative answer to that question. In fact, general growth trends of the last decade or so, and piecemeal research evidence, suggest that there is no aggregate credit shortage in rural America. That is not to say that some rural areas and some rural businesses do not have difficulty obtaining credit on favorable terms, either because of the cost of information, the perceived riskiness of the venture, or credit rationing by financial insitutions.

• Finally, discussions of rural disadvantage usually include data on expenditures by local governments. Even in constant dollar terms, increases in per capita local government spending are impressive. Between 1952 and 1977, real spending increased from $234 to $349 in urban counties and from $180 to $263 in rural counties.

Recent research by Tom Stinson has focused on progress against a minimum acceptable level of government service. He demonstrated that the proportion of counties spending less than a minimum acceptable level of local services decreased by about 50 percent between 1969 and 1977. Progress against a "poverty level" of educational spending was less dramatic--about a 20 percent decrease.

My point is this, the past 15 years have been a period of rapid growth and development for many of the cities, smaller towns, and open country areas of rural America. Per capita personal income levels in rural areas have risen to about 80 percent of those in urban (while appropriate cost-of-living adjustment would probably narrow the gap even further), and large numbers of better rural jobs have been created. Along with this has been enormous improvement in much of the public and private infrastructure that serves rural people. Given such a long period in which rates of population and employment growth for rural areas have been substantially greater than for urban areas, it is time to abandon the rhetoric of the 50s and 60s as a rationale for rural policy. Many of the equity arguments for generalized rural development assistance programs have been mitigated.

Research Priorities

Rural Typologies

Our ordinary use of the word rural, and the way we divide urban and rural territory, captures enormous diversity within the rural category. In fact, much of the research published by the Economic Development Division in the 70s had documentation of the many dimensions of rural diversity as a major theme. Together with other researchers, I believe we have been largely successful in making that theme part of the public knowledge base, from which discussions of policy and programs for rural development derive. Unfortunately, I believe we have been too successful. Many of the participants in the dialogue on rural policy have drawn the inappropriate conclusion that every rural area is so different from every other rural area that there is no need for (indeed no real possibility of) national rural development policy and programming.

It seems to me that what we need is research aimed at providing new social, economic, and political content to our categorization of places as rural. My hypothesis is that most rural areas can be aggregated into a handful of "types," and that this typology will contribute to a better understanding of commonality as well as diversity among rural areas. The objective of categorizing rural areas is improved public policy formulation, i.e., increased understanding of the various kinds of public policy and programs likely to be important to the future development of rural places.

I would speculate that there are several somewhat different rural typologies that may be useful, depending on the policy objectives we are seeking to meet. That is, the most useful way to organize rural territory when thinking about future economic development policy may well be different from how to best organize it to think about more narrowly conceived policies, e.g., health care or housing assistance. Alternatively, a single economic development-oriented typology may suffice, recognizing the pivotal role of economic opportunities in shaping other rural community choices.

The power of a typology of rural America is its capacity to capture a substantial amount of social and economic detail about rural places, relevant to policy formulation. That is, it serves as a paradigm of rural America for policymakers. If, for example, rural areas with a continuing dependence on agriculture form one logical group in such a typology, much more than their economic base will differentiate them from other rural areas.

Distributional Studies

In the literature of regional science, spatially oriented development policies can be justified on two grounds: efficiency and equity. The efficiency rational involves various kinds of market failure, which if corrected make it possible to achieve a higher level of national output from the same level of inputs. Thus, over some time horizon, policies that achieve an improved distribution of economic activity make (or at least have the potential to make) everyone better off.

The equity argument, of course, is that whether or not the observed spatial distribution of development is efficient, the resulting distribution of outcomes is unacceptable. Even if correcting these distributional inequities results in real costs, e.g., a reduction in national output, regional policies are justified.

In my judgment, most of the spatially oriented programs with which we have experienced in the U.S. over the past 20 years have been largely justified in terms of achieving distributional equity. Yet, our basic understanding of the distributional outcomes of development remains relatively primitive, except in the most aggregate terms: average or median levels of urban and rural per capita or family income, for example. Since those aggregate measures seem to indicate significant progress in achieving distributional equity among rural and urban places, it has become increasingly difficult to maintain the political coalition for general rural development programs—and, in fact, for any rural development assistance efforts.

We need wide-ranging research on distributional questions including national/regional analyses across areas and population groups. This should be a major focus of attention in analyses of the 1980 Census. But, in my view, such studies using large secondary data sets are not a substitute for more limited, localized research specifically designed to increase our understanding of particular kinds of distributional consequences of rural development at the community level.

The Economic Development Division has undertaken a series of such studies, designed primarily to increase our understanding of how rural labor markets distribute jobs in different kinds of growth situations; manufacturing, service, retirement, and recreation. Preliminary results from the first of those studies have already been revealing. For example, our study in Kentucky found that long-term residents were able to successfully compete with inmigrants for jobs. The rate at which long-term residents were employed was as high as the rate for inmigrants. However, the results confirm the belief that inmigrants have an advantage over long-term residents for better-paying jobs. Inmigrants, particularly those moving to the areas between 1965 and 1974, a period of rapid expansion in manufacturing and service employment in the area, held a disproportionate share of the executive, professional, and managerial positions.

Condition Monitoring

As a rule, I think too much of our research attention is devoted to purely descriptive reporting of rural conditions and changes, relative to efforts to understand the causal forces at work. We have, for example, done an outstanding job of documenting the dramatic shift in migration patterns that began in the late 60s. Several researchers, including Calvin Beale, Peter Morrison, and Glenn Fuguitt, have advanced reasonable explanations of the new rural direction of migration. Yet, to the best of my knowledge, we have no behavioral models of migration which any of these same researchers would be willing to say explain what happened in the 70s, or to use for even medium-term predictions of future migration trends. This represents a serious shortcoming in the usefulness of our understanding of rural development.

At the same time, I am convinced that simple, straight-forward reporting of rural conditions and changes is essential to public awareness of "ruralness." With nearly 73 percent of the nation's population living in metropolitan areas, and over 40 percent in areas with a population of 1 million or more, the predominant experience and perception of our society is urban. If the concerns of the over 60 million people who call rural America their home are to receive attention and to influence federal policies that affect them, their current situation must be well known.

Our ability to monitor current rural conditions improved significantly during the past decade, but high data collection costs and budget cutting have eroded some of those gains, and threaten still other sources of rural data. USDA's recently announced rural strategy, recognizing this problem, takes a particularly strong stand on the importance of adequate rural data. It says:

> "To help insure that statistical gaps do no impede rural America's access to Federal resources, and to ensure that policymakers at all levels of government have an accurate assessment of rural problems and potentials, the U.S. Bureau of the Census, Bureau of Labor Statistics and Bureau of Economic Analysis will improve the quality and specificity of information collected and reported on rural areas."

As researchers, we have a major responsibility to see that systematic efforts are made, not only to protect essential existing rural data series, but also to move forward with expanded rural data collection activities to fulfill this policy mandate. I am especially concerned that the long-awaited arrival of detailed social and economic data from the 1980 Census, and the opportunities it provides for much needed research, not consume all of our attention and energy. We need to be sure we don't spend 3 or 4 years mining the census for policy-relevant informaton, only to find that the rural world has shifted on us while we weren't looking.

Rural Development Modeling

Clearly, rural development policy is future oriented, that is, it is designed to shift the outcome of national development trends to increase the share of development captured by rural areas and rural people. Or, if you prefer a more modest characterization, it aims to improve future development opportunities for some specific set of rural places and groups of rural people within the rural share. In either case, appropriate policy intervention requires that we have a reasonable understanding of what future trends will be in the absence of intervention, and a clear idea of the consequences of intervention. We require this knowledge at both the national level and the community level. Unfortunately, we are very short on both of these counts.

Despite the difficulty of modeling future rural change, it it essential that we devote significant research resources to this task. My preference would be to develop our knowledge of causal factors influencing key components of rural well-being and change, rather than to attempt a holistic approach. I believe the risks in developing partial models and partial solutions are minimal, and I seriously doubt that we are in a position to be more ambitious.

My high priori list of issues where we need fundamental research knowledge includes: migration behavior; rural industrialization; natural resources endowments, ownership, control and social well-being; labor market structure and change; income and wealth distribution; rule of public facilities/services in social well-being and development; and local impact models.

A COMMUNITY ECONOMIC DEVELOPMENT AGENDA FOR EXTENSION IN THE 80s

Ronald C. Powers*

Introduction

This has been an excellent conference. That is not only my judgment but it seems to be widely shared by those of you who have attended. I'm very pleased to see nearly all of the participants stay until the conference is finished. I hope that some of my comments may be helpful and justify your staying.

My approach this morning is to make some opening remarks and then involve you in a discussion in which all of us can contribute to identifying the opportunities for important extension economic development work in the years ahead. It is my intent to utilize the input from this discussion session in the final version of this brief paper, which will be included in the conference proceedings.

A Bit of Reminiscing

On the 17th of February, I celebrated 25 years in Cooperative Extension work in Iowa. At a surprise party for the occasion which was

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thoughtfully arranged by my secretary, one of the state specialists displayed a poster with some of the newspaper headlines from that date in 1958. The items were rather interesting and included the following:

1. We were in a recession and had 4.5 million unemployed.
2. A brand new Edsel cost $3,595.
3. It was 19° below zero.
4. Eisenhower was vacationing in Georgia.

My conclusion about those items was that we are in a deeper and bigger recession; a new Edsel today would cost you considerably more (in fact a used Edsel would cost you much more); the weather, as always, is variable; and we have another president who enjoys vacationing away from the problems of the nation and the world.

In a more thoughtful review, I remembered that 1958 was the beginning of several economic develpment programs to deal with the problems of that day. Rural Areas Development (RAD) began at about that time. In the early '60s the Area Redevelopment Act was passed to provide aid to "sick and distressed" counties throughout America. In a short time, an avalanche of legislation was passed as part of the Johnson Administration's war on poverty. The perceived solutions were nearly all designed on a grand scale. The administrative philosophy on the national level at that time was to virtually write off the role of state governments to form a fourth branch of government in the countryside. These were sometimes called Community Action Agencies, Regional Planning Commissions, and the like. In fact, extension spent a good deal of time in the early '60s helping to design these organizations and develop such a system.

In the early '60s, we were working in extension to help rural people make choices. Many of those choices concerned outmigration from the rural areas. We performed economic base studies to try to help communities in areas understand what was happening. As I indicated, many of us helped bring about substate regionalism and other organizational mechanisms. Government was getting bigger, more programs were being developed, and federal dollars increased rapidly. Some of us used impact models in the early '60s that could have been quite damaging except that people tended to ignore us. I'm talking about the population and agricultural adjustments that led us to suggest to many communities that their only alternative was to gracefully prepare to disappear. Not only have virtually no rural places disappeared, but as we all know many of them have gained strength and others have retained a remarkable vitality.

Current Situation

Now, in 1983, we have more than 10 million people unemployed and are at or near the bottom of a recession that has been underway for more than two years—one of the longest recessions since World War II. If you believe the current news, then you may feel that the economy is on the mend and things will get better. Regardless of that conclusion, we know that federal dollars for state and local projects are shifting and decreasing. Roles of the federal government have changed in the last two years. We also know that many people have moved to rural areas. Entire basic industries in the country are being restructured. Whole categories of occupations are being eliminated or severely curtailed. We are, in short, in a new social, political, and economic era. This sketchy background is reason enough for us to carefully consider the extension economic development agenda for the rest of this decade. We must be aware that many of the rules of the game have changed. I'm not overly confident that we have changed enough to be of optimum use to the people who have problems.

As an example of our not understanding that the rules have changed, I would like to suggest that most of us were trained in economics to understand that an economy could not grow and prosper if one tried to create jobs which were essentially comparable to "taking in each other's laundry." I believe the rules have changed to the point that because we are not in a world-wide economy and much of the extractive industry is located elsewhere in the world, our shift to the services sector jobs is a step down that path of "taking in each other's laundry." What all of us will need to cope with is the extent to which that is, in fact, economic development in the sense of creating jobs and value added to products as opposed to some slight-of-hand juggling of jobs and resources.

Extension and Community Development in the '80s

As we consider possible agenda items for the economic development work of extension, it is important to take note of some background work that has just been completed.

Specifically, I would like to call your attention to the CRD in the '80s Task Force report which shows economic development to be one of three high priority and major problem thrusts of extension community development programs for the remainder of this decade. This document was approved by ECOP in their meeting just two weeks ago in late February.

To quote from that forthcoming document, the three major challenges facing communities are expected to be as follows:

1. Achieve or maintain a strong stable economic base.
2. Provide facilities and services to support this economic base and to meet social needs.
3. Foster a process of community decision making which assures the opportunity for constructive citizen participation.

Another document that has just been completed speaks to the entire Extension Service and is entitled "Extension in the '80s: A Perspective for the Future of the Cooperative Extension Service." The basic mission of Cooperative Extension Service is noted as follows: To disseminate and encourage the applicaton of research-generated knowledge and leadership techniques to individuals, families, and communities. Community and small business development are highlighted as being important segments of future extension programs. The report notes the following about community and small business development, "This work is increasingly important today since the constituent economic units in small communities--farmers, processors, and small manufacturers--are increasingly interrelated in terms of economics. Living environments, the quality of life, public services, and cultural and educational opportunities form a single concern." The conclusion in the report with respect to community and economic development highlights the following idea: "Vigorous communities and community leadership, profitable businesses, a prosperous agriculture, and vital organizational leadership are the goals of community development."

In the case of economic development, as noted by George Morse and his colleagues at the National CRD Leaders Training Conference at Atlanta in 1982, a key problem for us is that we have too few specialists trying to cover too many specialties. The near future does not hold well for solving that problem. Consequently, we will have to look at other options for increasing the amount of economic development assistance to communities and states.

Current Economic Development Context

A recent article by Timothy Schellhardt, from the Wall Street Journal, highlights another factor which will challenge us as we attempt to work in ways to improve the knowledge base upon which economic development policy decisions are made by local communities and states. Schellhardt discusses the increase in economic warfare between states and between regions. We have been observing this phenomenon for some time, but it is rapidly reaching epidemic proportions. Interstate economic conflicts are erupting in many areas. It is noted that more than sixty companies have moved from Minnesota to South Dakota in recent years. The same kind of migration of firms between states in this region and between states in the region and the rest of the country is also well know. The Silicon Valley of California, Route 128 in Massachusetts, the Research Triangle in North Carolina, and the computer-based industries in Minneapolis are being invaded by out-of-state economic development officials attempting to lure away high technology companies.

High technology has become a by-word of most states. Currently at least 33 states, including every state in the Midwest, have some form of high technology commission which is attempting to change policies and take actions which will bring a higher proportion of high tech jobs into their states. Whatever else, it is very clear that the total expected increase in jobs associated with high technology is not going to be sufficient to realize all of the job-creating goals stated by governors throughout the country. I hope that we will not become so focused on high technology that we overlook the many opportunities for job creation in the rest of the economy.

Another feature of the economic warfare is the tax policy revisions within the states in an effort to gain a comparative advantage in the war to locate new developments. Some of this is particularly worrisome, given the vast literature which suggests that tax abatements and other credits are not usually the major locational factor for an industry. Most of them have not demanded such, but because they have become a standard practice in economic development they are a defacto requirement and one which may find states and localities mortgaging their futures in ways which are difficult to overcome. We need to be more helpful to states and localities in evaluating the possible consequences of various tax abatements before the agreements are actually made.

Against this backdrop, then, what are some of the important items in our economic development agenda during the next three to five years?

The Economic Development Agenda for Extension

The most important question we have to answer before we implement further work in the economic development arena is whether or not we have a sincere intent to help. This is important because we simply do not have all the answers; we will have to help people muddle through decision-making processes, and the data base is never going to be totally sufficient to give precise answers. Within that framework, it is absolutely imperative that we only move ahead in this arena if we have a sincere willingness and intent to help people that overcome some of the untidiness of the decision making that must go on in this arena.

Part of my agenda speaks more to extension administrators than it does to extension specialists. The primary reason for that is because extension administrators need to grasp the importance of providing strong support for work in economic development. It is imperative to the continued vitality of agriculture as well as to the continued vitality of the total state's economy. That vitality is directly related to the willingness and the capacity of a state to support an extension educational system. There is a tendency in times of financial stress to pull back from those areas of work which are relatively new or have relatively few people employed in them and to concentrate on those things in which "we have always had excellence." I submit that in these days as we look ahead that the work in economic development is crucial and should not be disconnected or set aside from the business of extension.

Some of the agends that I have identified has an overlap with the research agenda because I believe that one of the items that we must be attentive to is the creation of a solid knowledge base under the extension programs which we initiate in this area.

I believe that one of the things that we must do in this region is to put together a stronger knowledge base which analyzes the basic economic trends which are occurring in the region and their relationship to the total economy. We need to know what is going to happen with respect to the basic industries, particularly those with aging physical plants. We need to have a handle on the number of jobs that will be terminated because of changes in the technology of basic industry as well as the relocation of that industry. We also need a hard-headed analysis of the total potential for jobs in the broad area that comes under the umbrella of high technolgy and some sense of the most likely location of these jobs within the region. It seems clear from speakers at this conference that the impact of high technology may be overestimated and, furthermore, that there will be relatively small defined areas within which most of that development will occur.

Associated with that is the need for a thorough look at the occurring manpower changes with implications drawn for retraining potential as well as the need for shifts in the kinds of basic vocational/technical training that are being provided in the region.

It goes without saying that we need substantial understanding of the relationships between tax policy and the financing of our basic public infrastructure in the years ahead.

One of the agenda needs is an active, vigorous public policy program aimed at helping people understand the changing economic base of the Midwest. State policy makers need to have a more complete understanding of what is going on and what is likely to occur in the economic base of this region and the effects of some of the policies which have been implemented or are being strongly considered by their states.

Beyond the broad public affairs approach, I believe that we need to move the tools that we have for community economic analysis into wider use as rapidly as possible. It seems to me that we have several analytical tools available that are being used here and there in the region, but we do not make enough final investment in order to provide these tools and make them applicable across the entire region. Perhaps we should give serious thought to multi-state or regional training for other organizations or agency personnel who are directly involved in economic development work so that they might make greater utilization out of the existing analytic capabilities. I am aware that some of you do offer basic economic development courses. Perhaps there needs to be some effort to expand this effort to include participants from more states.

Let me review some of the priorities generated from discussions during the conference. Without any necessary ordering of priority, they include the following:

1. Develop publications which stress "how to" and relate to community analysis tools as well as tools for helping individual business firms.

2. Create a series of small business management development materials.

3. Establish a National Center for Community Economic Development much like the Rural Crime Center or some variation which locates specialists in different institutions around the country who give leadership to subsets of the economic development agenda.

4. Form and use a team of experts to do certain kinds of training for selected audiences in the region.

5. Identify the professionals who are working in economic development within the region. Create and assist such a network in exchanging information.

6. Develop materials on alternatives of financing for public infrastructure as well as understanding the consequences of new federal regulations with respect to financing.

7. Inventory and synthesize literature with respect to the potentials of agricultural product processing within the region which would contribute to increased economic development.

8. Annotate a bibliography of community economic development tools which would be available to the professionals.

Some Ways of Implementing the Agenda

We have had applied research projects and some extension efforts related to economic development for several years. This conference is yet another example and will, I believe, push our thinking forward.

I would invite the people in this room to identify some of the most important knowledge needs for effective programming in economic development and to make proposals to the North Central Regional Center for Rural Development. We can often provide some seed money to allow groups to work towards their objectives. If desired, we can also take a more active role in helping to seek additional dollars where needed.

The center could also, with help from faculty in the region, engender some additional kinds of public affairs efforts for key decision makers.

In all of what we do, we need to remember and make use of our comparative advantages as an extension system. Among those that I see are the following:

1. Access to the research base.
2. Familiarity with and access to state and local leadership.
3. Advances in analytical models and computer-assisted decision processes.
4. Credibility which allows us to analyze alternatives and to communicate the consequences with little or no vested interest.

Summary

I hope these few remarks have stimulated your thinking about the kind of agenda which might be most appropriate for economic development programs for the next several years. Further, I hope you will share your thoughts and ideas with me so that we might help arrange for further work in this area.

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Vol. 9, No. 3
December, 1984

rural development news

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Tale of Two Cities Involved in Community Economic Analysis


Jopek


Lamb

In the Field

By Joe Jopek
and Greg Lamb

The Cooperative Extension Service of the Department of Agricultural Economics, University of Wisconsin, for the past two years has been conducting a series of intensive community economic analysis programs in Wisconsin communities. The purpose of the program is to assist community leaders in understanding the forces in the larger economy that are creating both opportunities and obstacles for local action. Furthermore, the program is designed to help those communities sort out the activities they wish to undertake in charting their own economic future, and begin to plot strategies about how and who shall undertake those activities.

The program focuses on two major themes. The first uses data on the local community in conjunction with various community economic analysis tools to compare economic activity within that community through time and among similar communities. The second is a diagnostic action-oriented approach to identify what the community wishes to do.

The program divides into four components of approximately four hours each. The first component is a review of recent and anticipated changes in the national and state economy. Particular emphasis is placed on the national economy's shift from goods to service-producing activities and the associated implications. An examination of the aging of the labor force and its implications for manpower needs, as well as a review of changes in the sources of other income not related to work (e.g., dividends, interest, rents, transfer payments, etc.) is also part of this segment.

The second component is an analysis of economic activity within the community over time and in comparison with similar communities. Such things as income (levels and sources), sources of employment, and changes in employment over time are included. The current level of and potential sources of retail trade expansion receive particular emphasis.

The third component segment incorporates options communities can pursue in their own economic development efforts and permits the community participants to complete the community economic preparedness index. The index is a simple survey asking if the community has done a variety of activities in its own economic development efforts.

The final segment of the program is a modified nominal group process to list issues the community feels it should address in charting its own economic future. Once the issues have been listed and priorities set, the participants are asked to start an action agenda to respond to the top items on the list.

This "In The Field" article reports the results of the community economic analysis program in two Wisconsin communities. The communities are Antigo (population of 9,000 in Langlade County, approximately 80 miles north and west of Green Bay) and Oconto Falls (population of 2,000 in Oconto County, approximately 30 miles north of Green Bay). The local economy in both communities is a mixture of forestry, dairy farming, and recreational interests. There is a substantial amount of potato farming in the Antigo area. Both communities have suffered from the loss of several major employers and uncertainty about the continued presence of a major employer because of changes in ownership. Both communities conducted a community economic analysis program in the spring of 1983. The remainder of this article will summarize who was involved in the program and the outcome of the efforts.

Antigo

The City of Antigo had benefited from a successful industrial development effort in the previous decade with the location of several firms. Its efforts were cited within Wisconsin's industrial development circles as a good example of a local program of encouraging economic growth by a rural community in the northern part of the state. The community had established an industrial development corporation, filled nearly one industrial park including three speculative buildings, and constructed another industrial park with federal participation.

Yet in the early 1980s, from all appearances, the community's economic development effort of the 1970s was being unraveled. A prospective firm, after building a 15,000-square-foot building with local financing, had to file for bankruptcy after losing a large contract. Within two years, five existing firms closed their operations in Antigo. The federal government closed a nearby radar installation, and the Chicago and Northwestern Transportation Company abandoned a branch line that ran through the community.

Late in 1982, a CRD agent visited the president of Antigo's industrial development corporation about conducting a community economic analysis program. The program was suggested as a way to bring together a group of community leaders to review the economic happenings and agree on a common direction for future efforts. The agent also viewed the program as a way to introduce a group of local leaders to some community economic development concepts beyond traditional approaches.

A steering committee composed of the industrial development corporation leader, chamber executive, radio station manager, and the agent was organized to plan the program and identify community participants.

One of the steering committee members contacted each participant in person to explain the program and solicit their involvement. The personal contacts were followed up with letters outlining the program and the details of the workshop.

The agent also met with the county economic development committee to explain the program and his involvement. The committee supported the effort and indicated its desire to become directly involved.

The workshops were held as evening sessions of four hours each on two consecutive Thursdays in April 1983. The sessions were divided with a family-style dinner, paid for by a local economic development group.

The first workshop, with presentations on national, state, and local economic trends, caused some participants to express concern about the amount of data. The second workshop generated more interest and discussion because of the local perspective in assessing existing conditions and resources. Identifying the challenges and concerns affecting the community's economic future involved a lively discussion.

Forty-seven challenges were identified and ranked by the group. The group was asked to indicate their preference for action, if any, beyond the workshops. There was unanimous agreement to organize as task forces to address the challenges identified at the final workshop.

The organizational meeting was held a week later. The group divided into four task forces: Industrial Development, Capturing Dollars, Government, and Transportation. A chairman was selected and other persons were identified to become involved in the community effort.

Since that time, each task force has met several times. The Industrial Development Task Force was instrumental in restructuring the city's industrial committee to assume a leadership role beyond the former function as a referral body. The committee prepared an economic development plan, which recommended retaining an industrial prospecting firm and working with existing firms. A prospecting firm has been retained, and the city committee is working with an existing firm to accommodate an expansion. The Industrial Development Task Force also played a key role in the community's acquisition of the abandoned railroad right-of-way within the city limits. The city council approved the purchase of the railroad property this spring after considerable effort by the Industrial Development Task Force chairman in negotiation with the Chicago and Northwestern and interested property owners.

The Capturing Dollars Task Force organized a market survey of consumers in the Antigo trade area and a merchant survey. The regional planning commission conducted the surveys and analyzed the data. Responses to the consumer survey were positive while the responses to the merchant survey were less encouraging. Limited staff resources and the commission's other commitments have delayed complete analysis and preparation of a final report. As a by-product of the task force effort, the chamber has been successful in getting downtown retailers and members of a northside business association to meet together. The joint meetings have provided a foundation for planning and organizing efforts to make Antigo a stronger retail market.

The Government Task Force had a more difficult time identifying their role and addressing the challenges assigned to them. The task force met several times but was unable to arrive at any specific activities. The group reorganized and identified other individuals to be involved in the effort. After reviewing the assigned challenges, the task force members developed six recommendations for local government officials to consider. A letter with the recommendations was prepared and mailed to elected officials of the county, municipalities, and school districts. The county board chairman has referred the letter to the county economic development committee for discussion and follow up.

The Transportation Task Force has been the most involved. The group identified the need for the improvement of U.S. Highway 45 between Antigo and Appleton. To achieve a state commitment for that improvement the task force members became involved in public hearings held by the Wisconsin Department of Transportation and the Major Projects Commission. The group also recruited additional support from others in the county and in other areas affected by the highway. The Highway 45 effort has occupied the task force's activity and the other transportation challenges identified remain for future efforts.

Oconto Falls

In the early fall of 1982, the Oconto County CRD agent approached the mayor of the City of Oconto Falls to see if there was any interest in a community economic analysis program. The reason for contacting the mayor of Oconto Falls was because there had been little opportunity to work extensively with that community. The community had not applied for any planning assistance, funding grants, or other programs designed to begin implementing community development.

After some explanation of the program's content, its process, and the time involved, the mayor felt such a program would benefit his community. During the winter and early spring of 1983 the mayor began soliciting members for the informal Economic Development Advisory Committee. It was emphasized that it was important to have individuals interested in the industrial, retail, services, and governmental aspects of the City of Oconto Falls. Between 10 and 20 individuals from all sectors of the community's economic life agreed to serve.

The intent of the program was to acquaint key actors in the City of Oconto Falls with changes occurring throughout the nation and Wisconsin, the extent and significance of these changes, as well as with methods designed to continue community economic viability in this time of change.

After examining the implications of national economic trends, the Oconto Falls economy was compared with three similar communities. Then the committee reviewed what Oconto Falls had done to maintain its economic viability and also charted a course of action for the future.

These sessions ended in early May 1983. The committee determined that one priority was industrial development. Another priority was to promote "things that bring outside money into the community." Within two months the city of Oconto Falls would accomplish those goals.

Oconto Falls, which had never before applied for community development funds, made the decision to apply for Community Development Block Grant monies to assist a paper converting factory. The community economic analysis report formed the basis of that application. The successful application provided for $550,000 of federal assistance, which leveraged an additional $1,310,000 of private monies for the creation of 63 permanent jobs. The mayor and city council of Oconto Falls and the developer all expressed appreciation for the program, which they saw as contributing to the funding of their community development block grant application. The city clerk was told of the importance of the community economic analysis program in the funding agency's decision to approve the CDBG application.

Other activities that grew out of the community economic analysis program are perhaps less dramatic but may prove to be as significant. Oconto Falls has contracted with a private consultant to do some work on import substitution and downtown planning. This marks the first time that Oconto Falls has expended any significant time or money on community development planning. One city alderman recently said that for the first time in the city's history people realize the value of a prosperous downtown.

There are now three additional new industries planning to locate in Oconto Falls. It is difficult to link the community economic analysis program directly to these new industries. Nevertheless, Oconto Falls leaders have become more and more aware of the importance of being proactive in terms of economic development rather than reactive.

In the fall of 1982, when the community economic analysis was first being considered, several people from the city of Oconto Falls indicated a great deal of concern about the possibility of high unemployment. These people felt that decisions by the community's major employer were being made by individuals who knew very little about the community. That no longer is mentioned as a concern by civic leaders in Oconto Falls. It would probably be inaccurate to say that the community economic analysis program was solely responsible for this turnaround, for certainly there were other reasons as well. The city has recently experienced new political leadership, an influx of investment money, and several interested local developers. The result is a healthy economic environment for the community.

Summary

The community economic analysis program provides an opportunity for community leaders and local extension agents to examine economic trends and conditions and their implications for the community. Just as important, the program shares alternative strategies for creating jobs and income in the community. The identification of local economic development challenges can translate education into community action. But for community action to occur requires a commitment by the citizens involved in the program to translate their goals and brief action agendas into reality.

One result of the program is an increased respect for extension's economic development role. The program provides the local agent with greater capacity to provide economic analysis for other communities in the county. This program is very much a program that grows.

Editor's Note: Joe Jopek and Greg Lamb are community development agents for the extension service of the University of Wisconsin. Jopek has been the community development agent for Langlade County since July 1972. He has also worked as an area agent in southern Illinois and with the Illinois Bureau of Outdoor Recreation. He earned his bachelor's degree in agriculture and his master's degree in extension education, both from the University of Illinois.

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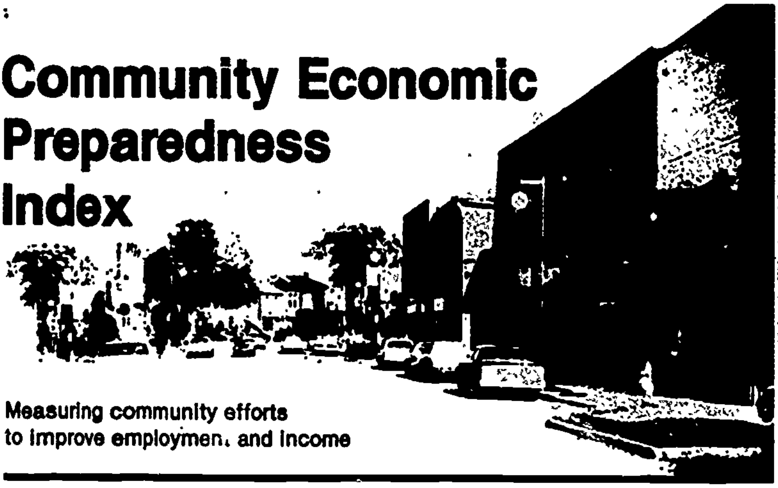
Persons interested in contributing an "In the Field" column should contact Rural Development News editor Brian Holding at (515) 294-1183.

Community Economic Preparedness Index



Measuring community efforts
to improve employmen, and income

INSTRUCTIONS
and
AGENCY ASSISTANCE GUIDE

produced jointly by

Wisconsin Department of Development and
University of Wisconsin-Extension

Developed by
Glen Pulver, Ron Shaffer, Ayse Somersan, and
Sydney Staniforth of the University of Wisconsin-Extension,
and Vance Rayburn of the Wisconsin Department of Development.

Instructions

PURPOSE

Wisconsin cities and villages compete with communities across the nation for new jobs and increased income. The Community Economic Preparedness Index (see attached) can help Wisconsin citizens analyze and take action to prepare their communities to be as competitive as possible.

NEED

Between 30,000 and 40,000 new jobs must be provided in Wisconsin each of the next few years if people entering the labor market are to find adequate employment opportunities. In 1980, just under one-fifth of all Wisconsin households received less than $7,500 annual income. To gain enough quality jobs, through both private and public employment, Wisconsin communities must be competitive with communities in other states.

Community residents seldom have complete control over their economic destinies. Industrial leaders make business location decisions while state and federal governments enact laws affecting business decisions and income distribution. Nonetheless, nearly all communities can do a number of things to create the best environment possible (within their resource limits) for economic growth. Note that economic growth may result in increased jobs, income, or both.

The Community Economic Preparedness Index is a list of activities and conditions that can be controlled by the community itself. A community wishing to maximize its opportunities for economic growth can examine its activities and conditions against the Index and test its preparedness. If the community feels a need to act, the Index points out things which might be done.

The Community Economic Preparedness Index includes indicators of all community opportunities to improve employment and income, such as:

NOTE: Additional copies of INSTRUCTIONS and AGENCY ASSISTANCE GUIDE are available from Prof. Glen C. Pulver, Dept. of Agricultural Economics, University of Wisconsin-Madison, Madison, WI 53706.

1. Attracting new basic employera through industrial development programs

2. Helping existing businesses grow through businesa management courses

3. Improving the ability to capture dollars locally through tourism and sales promotion activities

4. Encouraging the formation of new businesses through support of financial institutions

5. Increasing aids received from broader governments through organized program efforts, and

6. Other activities

The Index contains 20 major items. None is more important than the others. Consider all items in determining the community's preparedness.

Three cautions:

1. A high rating on the Index does not assure greater employment or higher income. Individual busineases and state and federal government will continue making decisions critical to local economic conditions. In addition, the community may aimply be short of resources or otherwise geographically disadvantaged.

2. Local citizens may not consider growth their primary need or interest. Investments aimed at better community economic preparedness might be undesirable from the citizens' standpoint.

3. Community leaders contemplating action as a consequence of this analysis should consider environmental factors such as air and water quality, noise levels, population density, solid waste management, and visual aesthetics.

PROCEDURE

Local citizens, county extension agents, or others may initiate the inquiry regarding use of the Community Economic Preparedness Index.

Community economic development specialists from University of Wisconsin-Extension and the Wisconsin Department of Development will meet with community leaders to discuss the Index. University of Wisconsin-Extension community development agents will be invited to assist in the program whenever possible.

Key participants include local leaders such as the mayor or village board president, chamber of commerce or business association executives, industrial development corporation executives, and others in critical decision-making roles. They may meet individually or as a group.

Every Community Economic Preparedness Index item will be discussed briefly and each community leader will be asked to check the Index form as he or she feels appropriate. The form is to help the community with its own analysis of preparedness. Community leaders should keep their own copies of the form. If a group meeting is held, a show of hands or some other mechanism might be used to indicate consensus of those present.

If community leaders desire, specialists from UW-Extension and the Wisconsin Department of Development will meet with community groups to discuss community preparedness as indicated by the Index.

On the form itself, the yes or no questions provide some general guidance as to the adequacy of the community's preparedness on the specific item. Check the yes, no or ? boxes for each subcategory before ranking the category as a whole. Where numbers are called for, fill the blank as accurately as possible, or insert a "?" in the blank.

If community leaders want further analysis or action on any specific aspects of community economic preparedness, they should invite specialists from UW-Extension and the Wisconsin Dept. of Development to meet with them to help build a plan. A list of agencies and organizations which can assist with each aspect of the Index follows.

Agency Assistance Guide

Considerable assistance is available to help community leaders plan for community economic preparedness. The following list is keyed to items in the Community Economic Preparedness Index.

1. Economic Development Planning
   * Wisconsin Dept. of Development
     123 W. Washington Ave., Madison, WI 53702
     Vance Rayburn - 608/266-2688
     Jim Gruentzel - 608/266-0563
   * Regional Planning Commissions
     Contact the nearest regional planning commission.
   * University of Wisconsin-Extension
     Contact Glen Pulver or Ron Shaffer (Ag. Econ., Madison) via your county Extension office.

2. Land Use Planning and Zoning
   * Regional Planning Commissions
     Contact the nearest regional planning commission.
   * County Zoning Administrator
   * University of Wisconsin-Extension
     Contact Richard Barrows or Douglas Yanggen (Ag. Econ., Madison) via your county Extension office.

3. Industrial Development Corporations
4. Inventorying Available Commercial Buildings
   * Wisconsin Dept. of Development
     123 W. Washington Ave., Madison, WI 53702
     Fred Pearce - 608/266-0165
     Vance Rayburn - 608/266-2688

5. Industrial Development Sites
6. Shell Buildings
   * Wisconsin Dept. of Development
     See #3, above.
   * Public Utilities
     Contact the local public utility, either gas or electric.

7. Labor Surveys
   * Job Service
     Contact the local Job Service office.
   * Wisconsin Dept. of Development
     See #3, above.

8. Promotional Brochures
   * Wisconsin Dept. of Development - Division of Tourism
     123 W. Washington Ave., Madison, WI 53702
     Ann Van Ess - 608/266-9243
     Stan Solheim - 608/266-7018
     Rae Van Wyhe - 608/266-1238
   * University of Wisconsin-Extension Recreation Resources Center
     Contact Jack Gray or Ayse Somersan (Madison), via your county Extension office.
   * Public Utilities
     Contact the local public utility, either gas or electric.

9. Community Economic Profile
   * Wisconsin Dept. of Development
     See #3, page 1.
   * University of Wisconsin-Extension, local county office
   * Public Utilities
     Contact the local public utility, either gas or electric.

10. Industrial Revenue Bonding
   * Wisconsin Dept. of Development
     See #3, page 1.

11. Local Bank Support
   * University of Wisconsin-Extension
     Contact Ron Shaffer, Sydney Staniforth or Glen Pulver (Ag. Econ., Madison) via your county Extension office.
   * Wisconsin Dept. of Development
     See #3, page 1.
   * Small Business Administration
     210 E. Washington Ave., Rm. 213, Madison, WI 53703
     James Bren, Chief, Finance Division - 608/264-5261
   * Wisconsin Bankers Association
     16 N. Carroll St., Madison, WI 53703 - 608/256-0673
   * Wisconsin Business Development Finance Corporation
     P.O. Box 7970 [123 W. Washington Ave.], Madison, WI 53707
     John Giegel, Director - 608/267-9381

12. Encourage Existing Businesses
   * Wisconsin Manufacturers and Commerce
     111 E. Wisconsin Ave., Milwaukee, WI 53202 - 414/271-9428
   * University of Wisconsin-Extension
     Contact Bob Pricer (Madison) via your county Extension office.
   * Vocational, Technical and Adult Education
     Contact the District VTAE office.
   * Wisconsin Dept. of Development
     See #3, page 1.

13. Retail Sales Programs and Commercial Development
    * Wisconsin Manufacturers and Commerce
      See #12, page 2.
    * University of Wisconsin-Extension Recreation Resources Center
      Contact Jack Gray or Ayse Somersan (Madison) via
      your county Extension office.
    * Wisconsin Dept. of Development
      123 W. Washington Ave., Madison, WI 53702
      Milt Strauss - 608/266-3750
      Bert Stitt - 608/266-5547
      Lake Superior Tourism Development
      810 Prentice, Ashland, WI 54806
      Ruth Goetz - 715/682-6529

14. Trade Area Surveys
    * University of Wisconsin-Extension
      Contact Fritz Sauer (Eau Claire)
      via your county Extension office.

15. Downtown Program
    * Wisconsin Manufacturers and Commerce
      See #12, page 2.
    * University of Wisconsin-Extension
      Contact Don Duxbury (Gov't. and Community Development, Madison) via your county Extension office.
    * Wisconsin Dept. of Development
      123 W. Washington Ave., Madison, WI 53702
      Ann Van Ess - 608/266-9243 Jim Gruentzel - 608/266-0563
      Bert Stitt - 608/266-5547
    * Billboard and Street Sign Laws, Permits
      WI Dept. of Transportation, Permits Unit
      Central Highway Maintenance Section, P.O. Box 7916,
      Madison, WI 53707 - 608/266-3638

16. Directory of Restaurants, Motel and Recreational Facilities
    * Wisconsin Dept. of Development - Division of Tourism
      123 W. Washington Ave., Madison, WI 53702
      Ann Van Ess - 608/266-9243
    * University of Wisconsin-Extension Recreation Resources Center
      Contact Don Schink or Ayse Somersan (Madison) via
      your county Extension office.

17. Major Community Events
    * Wisconsin Dept. of Development
      123 W. Washington Ave., Madison, WI 53702
      Ann Van Ess - 608/266-9243
      Bert Stitt - 608/266-5547
    * University of Wisconsin-Extension Recreation Resources Center
      See #16, page 3.

18. Public Services
    a. Fire service grades
       Insurance Service Office, 615 E. Michigan Ave., Milwaukee
    b. Solid waste management
       * WI Dept. of Natural Resources. Contact district DNR office.
       * University of Wisconsin-Extension. Contact via your county Extension office.
    c. Sewer discharge requirements
       WI Dept. of Natural Resources. Contact district DNR office.
    d. Water capacity
       WI Dept. of Natural Resources. Contact district DNR office.
    e. Street improvement plan
       WI Dept. of Transportation. Contact district DOT office.
    f. Airport facilities
       WI Dept. of Transportation, Bureau of Aeronautics
       F. Wolf, Bureau Director, P.O. Box 7914, Madison, WI 53707 - 608/266-3351

19. Acquiring State and Federal Funds
    * Wisconsin Dept. of Development
      123 W. Washington Ave., Madison, WI 53702
      Jim Gruentzel - 608/266-0563
    * Regional Planning Commissions
      Contact the nearest regional planning commission.

20. Living Environment
    a. Senior citizen transportation
       WI Dept. of Health and Social Services
    b. Public Housing
       WI Dept. of Development
    c. Public Parks
       WI Dept. of Natural Resources
    d. Physicians
       WI Dept. of Health and Social Services
    e. Low and moderate income housing
       WI Dept. of Development
    f. Educational systems
       WI Dept. of Public Instruction
    g. Youth organizations
       University of Wisconsin-Extension. Contact county office.

Community Economic Preparedness Index

Measuring community efforts to improve employment and income

Produced jointly by the Wisconsin Department of Development and University of Wisconsin-Extension

Instructions

The purpose of the community economic preparedness index is to help citizens analyze and plan action to improve their community's opportunity to increase employment and income. The index is a list of activities and conditions that can be controlled by the community.

To complete the form, fill in the "yes" or "no" blanks for each item, then rank the category as a whole. If you do not know, mark "?". Items marked "no" and categories rated "fair" or "minimal" indicate areas in need of improvement. The index was designed for communities of between 1,000 and 20,000 people in size.

1. The community has an economic development plan:

Yes No ?

☐ ☐ ☐ a. Prepared and reviewed by a citizens committee.

☐ ☐ ☐ b. Formally adopted by the village board/city council within the last three years.

☐ ☐ ☐ c. Includes a complete analysis of sources of employment.

☐ ☐ ☐ d. The plan encourages economic development.

Circle one: *Excellent* *Good* *Fair* *Minimal*

2. The community has a land use plan and zoning ordinance that delineates industrial and commercial areas.

Yes No ?

☐ ☐ ☐ a. It has been written or formally reviewed within the last three years.

☐ ☐ ☐ b. Provision is made for expansion of commercial and industrial sites.

Circle one: *Excellent* *Good* *Fair* *Minimal*

3. The community has an industrial development corporation.

Yes No ?

☐ ☐ ☐ a. There is an organized industrial development prospect contact team.

☐ ☐ ☐ b. An annual update of industrial development information has been filed with the Wisconsin Dept. of Business Development.

☐ ☐ ☐ c. The corporation has financed an industrial prospect search outside of the community within the past two years.

__________ d. Budget (amount).

__________ e. Membership (number).

Circle one: *Excellent* *Good* *Fair* *Minimal*

4. The community has a contact system for inventorying vacant and available commercial buildings.

Yes No ?

☐ ☐ ☐ a. A list of current vacancies can be provided within two days.

☐ ☐ ☐ b. The list includes square footage, photographs, property description, and ownership.

Circle one: *Excellent* *Good* *Fair* *Minimal*

5. The community has an industrial site (with vacancies)

Yes	No	?	
☐	☐	☐	a. It owns or has an option on a site of 15 acres or more.
☐	☐	☐	b. There is an adequate water line (10" or more) to the property line.
☐	☐	☐	c. There are heavy duty streets not through a residential area to the boundary.
☐	☐	☐	d. There is an adequate sewer line (12" or more) to the property line.
☐	☐	☐	e. A firm site price has been set.
☐	☐	☐	f. A soil test boring has been made.
☐	☐	☐	g. A copy of site covenants and restrictions is readily available.
☐	☐	☐	h. A topographical map is readily available, including site layout.

Circle one: *Excellent* *Good* *Fair* *Minimal*

6. The community has a vacant shell building on an industrial site.

Yes	No	?	
☐	☐	☐	a. Minimum of 10,000 sq. ft.
☐	☐	☐	b. Floor to ceiling clearance, 16 ft.
☐	☐	☐	c. It is expandable.
☐	☐	☐	d. Layout and photo are available.
☐	☐	☐	e. An annual update has been filed with the Wisconsin Dept. of Development.

Circle one: *Excellent* *Good* *Fair* *Minimal*

7. The community has done a labor survey within the past three years.

Yes	No	?	
☐	☐	☐	a. It includes the number of people by employer.
☐	☐	☐	b. It includes a wage rate and fringe benefit analysis.
☐	☐	☐	c. It identifies which labor unions are present in the community.
☐	☐	☐	d. It describes absenteeism rates.
☐	☐	☐	e. It identifies work force participation rates.
☐	☐	☐	f. It indicates the distance people will travel to work.
☐	☐	☐	g. The community is organized to do a special labor survey on request.

Circle one: *Excellent* *Good* *Fair* *Minimal*

8. The community has a promotional brochure.

Yes	No	?	
☐	☐	☐	a. It describes the recreational opportunities.
☐	☐	☐	b. It provides a description of services (e.g. retail, restaurants).
☐	☐	☐	c. It describes the quality of public services (e.g. schools, hospitals).
☐	☐	☐	d. It describes private housing quality.
☐	☐	☐	e. It describes major employers (industry, commerce, government).
☐	☐	☐	f. It has been revised within the last two years.

Circle one: *Excellent* *Good* *Fair* *Minimal*

OPPORTUNITIES FOR DEVELOPMENT:

Help Businesses Grow

Help Businesses Start

9. The community has completed and distributed a "Community Economic Profile" within the past year.
(Example: those done by the Wisconsin Dept. of Development, public utilities, etc)

Yes No ?

☐ ☐ ☐

Circle one *Excellent Good Fair Minimal*

10. The local government helps business acquire financing.

Yes No ?

☐ ☐ ☐ a. Has passed an industrial revenue bond interest resolution.

☐ ☐ ☐ b. Has created a tax incremental financing (TIF) district.

☐ ☐ ☐ c. Has encouraged the formation of a small business development organization.

Circle one *Excellent Good Fair Minimal*

11. Local banks support community economic development.

Yes No ?

☐ ☐ ☐ a Local banks have utilized a correspondent bank relationship in financing a local project within the past two years

☐ ☐ ☐ b Local banks have actively solicited commercial and industrial loans within the past year.

☐ ☐ ☐ c. Local banks have made Small Business Administration guaranteed loans within the past two years

☐ ☐ ☐ d. Bank officials are active in community economic development organizations.

Circle one. *Excellent Good Fair Minimal*

12. The community has a program to encourage existing businesses (commercial and industrial).

Yes No ?

☐ ☐ ☐ a. At least three adult courses in business management were taught last year.

☐ ☐ ☐ b. The Chamber of Commerce, business organization, or industrial group makes regular visits to business managers.

☐ ☐ ☐ c. An annual industrial and commercial recognition event (exhibit, field day) is held.

Circle one: *Excellent Good Fair Minimal*

13. The community has a chamber of commerce or business organization working on retail sales programs and commercial development.

Yes No ?

☐ ☐ ☐ a. Has a paid (chamber of commerce, business organization) executive at least on a part-time basis

☐ ☐ ☐ b Has a tourist promotion committee.

__________ c. Number of members (number).

__________ d. Budget (figure).

Circle one. *Excellent Good Fair Minimal*

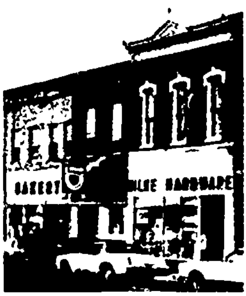
14. The community has completed a trade area survey/analysis within the last three years.

Yes No ?

☐ ☐ ☐ a. The findings have been reported to local businesses.

☐ ☐ ☐ b. The findings have been communicated to business prospects outside of the community.

Circle one: *Excellent Good Fair Minimal*



Capture Dollars Locally

Attract New Industry

Increase Aids Received

15. **The community has an active downtown program.**

Yes No ?

☐ ☐ ☐ a It has a regular calendar of main street promotion activity (e g monthly trade days)

☐ ☐ ☐ b Has completed a downtown physical renovation within the past 10 years

☐ ☐ ☐ c Merchants are following the plan when renovating

☐ ☐ ☐ d Has a uniform billboard and street sign ordinance.

☐ ☐ ☐ e Has improved main street lighting, seating, and traffic flow within past 10 years

_ ________ f. Number of downtown business area public parking spaces (number).

Ci ' *Excellent Good Fair Minimal*

16. **The c...munity has a published directory of:**

Yes No ?

☐ ☐ ☐ a Restaurants

☐ ☐ ☐ b Motels and hotels

☐ ☐ ☐ c Recreational facilities

Circle one· *Excellent Good Fair Minimal*

17. **The cc nmunity has at least one major community eve:. ach yea** (one which has an impact broader than the community, attracting at minimum people from neighboring communities, e g. pageants, festivals, contests, derbies, fairs)

List the events. ____________________________

____

Circle one· *Excellent Good Fair Minimal*

18 **The public services of the community are adequate.**

Yes No ?

☐ ☐ ☐ a The municipal fire service is Grade 6, 7 or 8 or better (rated in past 5 years).

☐ ☐ ☐ b Has capacity for environmentally-sound solid waste management in landfill sites for at least five years

(continued to next column)

☐ ☐ ☐ c. Meets all Dept. of Natural Resources sewer discharge requirements or has initiated the facilities planning process.

☐ ☐ ☐ d. Has excess water capacity equivalent to 5% of its current population.

☐ ☐ ☐ e Has an organized plan for next five years for capital improvements on streets.

☐ ☐ ☐ f. Has an airport with a 3,900-foot paved runway or better.

Circle one *Excellent Good Fair Minimal*

19. **The community has submitted proposals for state and/or federal funding for development programs.**

Yes No ?

☐ ☐ ☐ a. For housing.

☐ ☐ ☐ b. For two of the following. sewer, water, streets, fire protection, waste management.

☐ ☐ ☐ c. For one of the following. airport, health protection, public parks, community building.

Circle one· *Excellent Good Fair Minimal*

20. **The community presents a positive living environment.**

Yes No ?

☐ ☐ ☐ a. There is an organized senior citizen transportation system.

☐ ☐ ☐ b. There is a senior citizen public housing development.

☐ ☐ ☐ c. There are 10 acres or more of public parks per 1,000 people.

☐ ☐ ☐ d. There are fewer than 1,000 people per physician.

☐ ☐ ☐ e. The percentage of low and moderate income households with housing assistance needs is below 13%.

☐ ☐ ☐ f. All educational systems are adequate.

________ g How many youth organizations are there functioning in the community? (number)

Circle one *Excellent Good Fair Minimal*

COOPERATIVE EXTENSION PROGRAMS UWEX University of Wisconsin-Extension, Cooperative Extension Programs, Gale L. VandeBerg, director, in cooperation with the U.S Department of Agriculture and Wisconsin counties, publishes this information to further the purpose of the May 8 and June 30, 1914 Acts of Congress, and provides equal opportunities in employment and programming including Title IX requirements

Produced by the Department of Agricultural Journalism, University of Wisconsin-Madison

This publication is available from your Wisconsin county Extension office or from
Agricultural Bulletin Building
1535 Observatory Drive
Madison, Wisconsin 53706
Phone 608-262-3346
Editors, before publicizing should contact the Agricultural Bulletin Building to determine its availability.

13189 COMMUNITY ECONOMIC PREPAREDNESS INDEX
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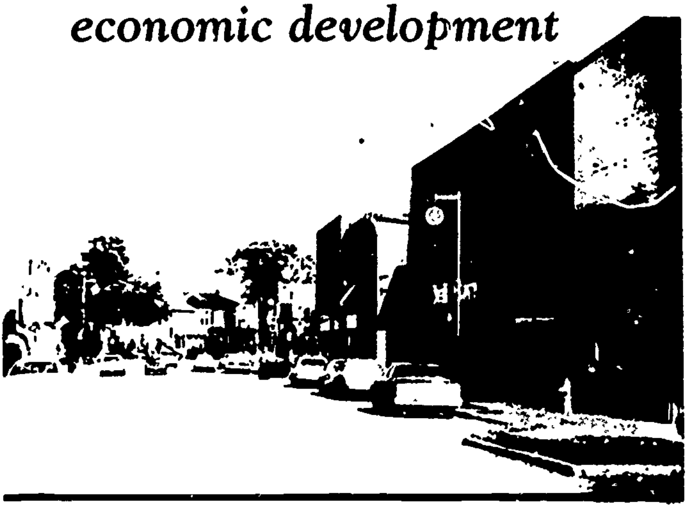
JOBS and INCOME

What you can do about community economic development



University of Wisconsin-Extension can help you and your community identify specific actions you can take to improve local employment and income.

University of Wisconsin, United States Department of Agriculture and Wisconsin Counties Cooperating.

UW-Extension provides equal opportunities in employment and programming, including Title IX requirements.

JOBS and INCOME: What you can do about Community Economic Development

University of Wisconsin-Extension's community economic analysis program can help you develop a plan of action to create jobs and income in your community.

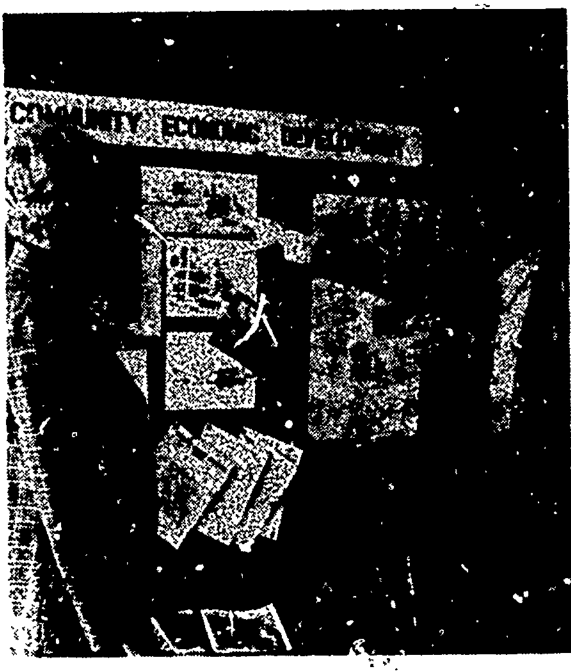
To help you think through what can be done, your County Extension Agent and University specialists can explain:

- Your community's economic situation
- Specific opportunities available to improve jobs and income

Actions that can be taken locally and that are likely to improve local employment and income include:

- Improve efficiency of existing firms
- Improve ability to capture dollars
- Attract new basic employers
- Encourage new business formation
- Increase aids received from broader government levels

UW-Extension can help you choose specific activities to undertake.



Participants in the Community Economic Analysis Program include 15-20 community leaders representing local government, the Chamber of Commerce, industrial developers, bankers, business people, and other concerned citizens.

For more details, contact your County Extension Community Development Agent, or:

Glen Pulver (608/262-4963)
Ron Shaffer (608/262-9485)

Department of Agricultural Economics
University of Wisconsin-Madison
427 Lorch Street
Madison, Wisconsin 53706

University Knowledge at Work

Community Economic Analysis Program Sessions held in your community

Session 1—Review recent changes, trends in Wisconsin and U.S. economies and implications for your community. Explore shift from goods to service economy, aging of labor force, future sources of new job growth, changes in income sources. Review economic conditions in your community.

Session 2—Analyze in detail characteristics of trade area, level of current trade activity and possible new trade activities in your community. Segment makes extensive use of community employment and income data. Emphasizes economic conditions in your community compared with similar communities as well as changes over time.

Session 3—Complete self-evaluation using "Community Economic Preparedness Index" that examines types of economic development activities your community has already undertaken.

Session 4—Develop a specific overall plan of action to positively affect your community's economic future. The top 8-10 items will be developed further, including what needs to be done and who will do it.

SOME economic forces are
beyond community control. . .

OTHER economic factors
can be influenced at the local level.

IF YOU WANT. . .

- More JOBS for local residents
- Improved local INCOME
- Increased SALES at local stores
- NEW BUSINESSES in your community
- Increased PROFITS for local firms
- Tax dollars WORKING for your community

UW-EXTENSION
can help you understand, analyze, and evaluate your community's economic situation, so

YOU can develop a plan of action
for your community's future economic development.

RURAL ECONOMIC DEVELOPMENT

WEDNESDAY, MAY 15, 1985

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON AGRICULTURE AND TRANSPORTATION
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SD–562, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor and D'Amato.

Also present: Robert J. Tosterud, deputy director; and Dale Jahr and Kenneth Brown, professional staff members.

OPENING STATEMENT OF SENATOR ABDNOR, CHAIRMAN

Senator ABDNOR. The subcommittee will come to order.

Welcome all of you gentlemen to our Joint Economic Committee panel this morning.

This is the second hearing in a series on the rural economy and as we all know, rural America is not participating fully in the current U.S. economic recovery and today's topic is especially pertinent in light of that fact.

Last week, we held a hearing on the condition of, and prospects for, Main Street. The prognosis was not good. The rural population is dwindling and growing older; rural income is sagging; agricultural and natural resource industries are in the throes of recession; and small communities are losing their economic identity. The foundation of our rural economy is crumbling.

Today's hearing on economic development is the keystone to the revitalization of rural America. If rural towns and cities are to exist, they must have an economic foundation. Rural America's traditional reliance on agriculture has resulted in a decades-long decline in growth relative to the overall U.S. economy. The only thing that can reverse that trend permanently is to diversify the economic base and create new value-added employment opportunities.

Having said that, let us not forget that agriculture also offers a great future for not only rural America, but urban America as well. I'm bullish on U.S. agriculture, and if we can enact an effective farm program and reduce the Federal deficit and lower interest rates and exchange rates, I'm convinced that the farm sector will go gangbusters. And rural America will bloom and prosper right along with it.

Rural America has all the necessary ingredients for economic growth. We have all the natural resources at our fingertips. We have a labor force unrivaled in skills, trainability, resourcefulness, reliability, and productivity. We have superior business climates, very suitable governments, and a quality of life unavailable to most Americans.

Regretably, the general public suffers from a misconception of what rural America is like and has to offer. Too many Americans and companies think that small, rural towns, are a step back into the stone age. But in fact, these towns are the best kept economic secrets around.

What rural America perhaps may lack is the capital resources to harness its natural attributes to the fullest advantage of rural residents. In this era of modern transportation, telecommunications, and high technology, geographic remoteness no longer is the obstacle it presented 100 years or even just one generation ago.

It is my hope today that we can outline strategies for successful economic development for nonmetro communities throughout the United States. Again, it is an honor to have this panel of distinguished witnesses before the Joint Economic Committee. I look forward to hearing from you.

I want to start out this morning with our first witness, Mr. John Howard, who is another active and civic-minded South Dakotan. His experience, both as the head of Black Hills Packing Co. and as former president of the Rapid City Economic Development Foundation will give us tremendous insight into the nuts and bolts of economic planning. He also is a member of the South Dakota Manufacturers and Processors Association.

Last year, under Mr. Howard's able leadership, his company received the U.S. Senate Productivity Award.

John, it's a real pleasure to have you. I just knew you were one gentleman who could make a great contribution to what we are trying to do, and provide some answers that we're trying to come up with, so I welcome you to the panel.

STATEMENT OF JOHN R. HOWARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BLACK HILLS PACKING CO. AND BLACK HILLS TRUCKING CO., RAPID CITY, SD

Mr. HOWARD. Good morning. I'm John Howard, president and chief executive officer of Black Hills Packing Co. and Black Hills Trucking Co., located in Rapid City, SD. I'm involved in several other activities including being the immediate past president of the Rapid City Economic Development Foundation. Our company is a member of the South Dakota Manufacturers and Processors Association and was awarded the U.S. Senate Productivity Award in 1984. I consider myself to be wearing several hats today.

Your timing on addressing rural economic development is most appropriate. It has been many years since the agricultural economy has been as distraught as it is today. We are seeing cow-calf operators in serious trouble. Not just the marginal ones but even some of the old-time efficient operators, on up the chain through the feeders, the packers and processors, difficult times are being had by almost all. Many meat packers and processors have closed. Grain mills and farm machinery manufacturers are closing.

The bleak outlook for the food prices has caused many large U.S. companies to feel they were in error to have acquired food companies in the 1960's and 1970's. Food companies are selling off processing divisions. Predominantly nonfood companies are selling their food divisions. The allied industries are also hard hit, the small town elevators, repair shops, tire dealers, fuel suppliers all feel the negative impact of a nation with a cheap food policy.

Yes, rural America is efficient. We are so efficient that we produce far more than the United States and our present level of exports can consume. Don't be fooled by the lack of food in Ethiopia. We have more than enough in this country and are capable of producing much more.

Additional pressure is brought by our strong dollar hurting export sales and increased production by other countries not only competing against us abroad but also through imports into this country.

With about 23 percent of American workers employed in the food producing, processing, shipping, and marketing industries thousands of rural jobs could be lost.

Yes, rural economic development is a timely but difficult and complicated problem to address. This is of utmost importance to us in South Dakota as we are about as rural as you can get. We have almost 700,000 people living on just under 76,000 square miles. It's not very crowded. Our principal industry is agriculture followed by tourism. The Black Hills, Mt. Rushmore, and the Badlands attract millions annually.

Rural economic development has been addressed by our community in a variety of ways. Several different approaches have been tried—times change, methods to develop must also change. Private industry has frequently been the impetus to further development and in the last several years city and county governments have assisted greatly.

Our community or any community, urban or rural, yesterday or today, is faced with some of the same basic questions: Do you want further economic development—if so, what type? Also, how do you plan on keeping what you already have?

I feel our community needs to keep and expand existing business and industry and grow at a reasonable rate through new identities.

Some of the first questions to be answered are:

Why would someone want to start or move a new business here? We must be honest in our answers. What do we have to offer? This brings me to three basic questions I often think of in respect to this:

First. Raw materials: Almost all types of manufacturing require some form of raw materials. They may be light, heavy, small, large, expensive or not, but usually raw materials are a requirement. Are they locally obtainable?

Second. Consuming public: Who wants the finished product? Are they local? Are the products produced going to be shipped a long distance?

Third. Available labor force: Are there enough people with the right education and experience available at the right price?

These three basic elements normally come into play in the consideration for a business move, expansion, or new startup. Further dissection of these three brings more answers and also more questions.

If we as an area do not have the raw materials, are they of the type that can be transported at a reasonable cost?

If the consuming public isn't here, can the finished product be reasonably transported to the consumer?

If the right type or quantity of labor isn't available now, would it be if the opportunity were there?

Ideally, a community would like to answer yes to all three questions. Rural America usually cannot. Will two yes answers be sufficient or even one? If the answer is no to all three, economic development with that particular identity becomes very difficult.

In addition to the three basics many other elements are of course necessary in economic growth. Such things as capital either public or private must be available and at the right price. Quality of life can be rated many ways—air quality, student-teacher ratios, and many many more including the individual's opportunity to control his own destiny.

Using these basics, we promote our two main raw materials. Agriculture—Black Hills Packing Co. is a good example of expansion of existing raw material, cattle and labor, to be consumed elsewhere; 70 percent of our business is done out of the State of South Dakota. We are further processing our product on a local level. We employ local people to increase the value of our finished product transforming it into a more consumer-ready size, we also retain some of the byproducts to be used in the Midwestern market.

Our community's most recent sizable new industry, also ag-related, is the Merillat Corp., a particle board manufacturer. They found two of the three basics locally available. Raw materials—wood chips, a byproduct of the timber industry in the Black Hills. The second item—the right type, quantity, and quality of labor was readily available. The consumers for their finished product are their own plants in other parts of the country. The final decision to build in Rapid City or not, necessitated a monetary commitment on the part of the business community. Sort of a show of faith, one quarter million dollars underwritten by pledges.

Selling tourism is like selling quality of life. You still have it to sell over and over. The natural beauty of the Black Hills attracts visitors. These people need services, promoting more businesses. One feeds on the other.

Being a long distance from a major city we, as a community, have also established ourselves as a regional shopping, medical, wholesale, convention, and entertainment center.

We also maintain an excellent rapport with Ellsworth Air Force Base located adjacent to Rapid City.

In conclusion, I'm not convinced that the rest of the Nation is experiencing a long-term robust economy. I am convinced though that the rural element, the ones providing the reasonably priced food for this country and others, is not.

Rural America is facing some dramatic changes. Many jobs will no longer be available. New types of jobs will have to be found or the rural people will have to go where the jobs are.

Some small communities will not survive. Some will consolidate. To entice business or the industry from State to State or from city to city does not solve the long-term problem.

Each rural community must assess its strengths and weaknesses and use the strengths to create economic growth.

Senator ABDNOR. You're certainly correct when you say one thing we do know is that rural America is not experiencing any great recovery in the so-called economic recovery that is taking place and we are looking forward to asking you some questions and maybe you can come up with some proposals or thoughts that would be beneficial to rural America.

Now, going from the western border of South Dakota out of Rapid City, we're going to stretch clear over to the southeast corner of South Dakota and to the more rural areas of the country, where a lot of the problems that we're talking about are quite common with other areas of rural America.

Our next witness comes from Yankton, SD, where he is president of Morgen Manufacturing Co. Under his able management this fine company earned the prestigious "E" award from the U.S. Department of Congress. This award is presented to firms with outstanding export achievements. He comes to us wearing two hats.

Mr. Cope is a member in good standing of the South Dakota Manufacturers and Processors Association and the National Association of Manufacturers and we are really looking forward to hearing from you, Jim, because some of the problems which you experience in a small city like yours are quite common with the larger ones and probably even more so in South Dakota, so we're looking forward to hearing from you.

STATEMENT OF JIM COPE, PRESIDENT, MORGEN MANUFACTURING CO., YANKTON, SD

Mr. COPE. Thank you, Mr. Chairman.

I'm here today speaking as a representative of existing businesses in South Dakota. As you have explained, I am president of the Morgen Manufacturing Co.

Businesses and communities are built where men work to build them. This is a fundamental truth which applies to rural America and everywhere else. However, it's necessary that we qualify this fundamental truth by recognizing that there are more men in some areas than there are in others and that conditions for economic development are more favorable in some areas than in others.

I am speaking as a manufacturer located in Yankton, SD. There is no doubt in my mind that Yankton qualifies as being typical in rural America. Some testimony supporting this is the article appearing in this week's Forbes magazine about the community of Yankton which I want to call to your attention. And I'd like to ask possibly if that could be included in the record.

Senator ABDNOR. Without objection.

Mr. COPE. I believe people in my community are basically conservative. They favor the new federalism and the basic concepts of deregulation.

However, implementing these policies at a time when the long-term-economic progression from small farms to large farms is accelerated and made extremely pervasive by high-real-interest rates and the present extremely high value of the U.S. dollar in world-wide markets has been disastrous for rural America. The net affect of all these forces focused in a relatively narrow time period has resulted in concentrating almost all new economic activity and growth in a few major metropolitan areas in the East, the South, and the West while the economy of rural America stagnates and deteriorates.

The economic development people in South Dakota fight to get any industry into our State that would bring in jobs. In contrast, Scottsdale, AZ. recently hired staff to discourage new industry from locating in that area.

South Dakota has not recovered from the recession of 1981–82. We do not share in the current robust expansion of the U.S. economy mentioned in the letter inviting me to make this presentation. A recent survey done in Yankton, SD, comparing essential measures of economic health on the basis of constant dollars for the period of 1978 to 1983 shows absolutely no growth in the important areas of effective buying income and retail sales; no growth in population and employment. I have attached a schedule to show that in some detail.

While these declines reduce available resources, the cities in rural America do not experience a corresponding decline in the demand and need for services such as streets, sewers, water, and police. At the same time, essential services like highways, railroads, and airline service become more, rather than less, critical.

A factor contributing to the problems of small town rural America is the fundamental policy of fairness that even the poor part of town is entitled to a minimum level of services. The same principle should apply at a national level and rural America is entitled to minimum levels of highway, airline, and railroad services even though the lack of population and today's depressed conditions require some level of subsidy for these services.

All the problems of rural America are currently exaggerated by the dual problems of high interest rates and the high value of the U.S. dollar. I believe almost everyone agrees that the root cause of these two problems is the continuing deficit of the U.S. Government which must be curbed. However, I urge strongly that rural America which is bearing a disproportionate share of the impact of the high interest rates and loss of markets because of the high value of the U.S. dollar is not in position to make a disproportionate contribution to reducing the deficit by suffering reduction of essential programs.

Almost by definition rural America is capital deficient. We need to continue those programs which aid in capital formation and in financing business. Last week the South Dakota Manufacturers and Processors held their annual meeting in Sioux Falls. At that time I conducted an informal survey of those present with regard to Federal loan programs. I found little or no support for direct Government loans from the Small Business Administration, Farmers Home Administration, or other Government agencies. On the other hand, there was overwhelming support for guaranteed loan programs which would enable responsible banks and financial agencies to expand the amount of loans available to deserving businesses.

As I said, I am representing existing business.

My company, Morgen Manufacturing Co., was started in 1950. We were the second manufacturing plant to be located in Yankton. The company was started to market a new type of scaffolding for masonry construction. By 1981 we had expanded our product line to include conveyors for placing concrete and handling roofing materials and pumps to place concrete. We had 108 employees, did 25 percent of our business overseas and that year we were awarded the President's "E" for outstanding contribution to the export expansion program of the United States. We were generally regarded as a successful company. I had been recognized as the Small Businessman of the Year by the SBA, as the South Dakotan of the Year of the School of Business of the University of South Dakota and had received the Alumni Achievement Award from Yankton College. Our level of sales was about $7 million. We never got back to that level.

The recession of 1982 cut our sales in both the domestic and overseas market—but the ratio between them stayed about the same; 1982 was a normal recession for us.

But 1983 and 1984 were not normal. The value of the U.S. dollar rose so high that we were no longer competitive in the oversea market even though we did not increase our prices. Our oversea sales went down, not up, and today our oversea business is less than 5 percent of our total volume.

The same over-valued dollar let European manufacturers ship concrete pumps into the United States to undersell American made equipment. This price advantage favoring pumps almost wiped out our concrete conveyor market. German competitors openly took advantage of the ratio of the dollar to the mark to buy market share.

Let me give you a brief example of what the change in the exchange rate between the mark and the dollar has meant to German manufacturers and their competitors in America. Let's assume that the operating cost to produce the equipment remained constant for both the German and the American manufacturer. If the German manufacturer needed 100,000 deutsche marks to sell his equipment and make his normal profit when the mark traded at 2½ to 1, he would price his equipment in the United States at 40,000 U.S. dollars. When the mark went to 3 to 1, he could receive the same 100,000 DM's by selling for only 33,333 U.S. dollars. Even the 5 percent duty on imported pumps went down $333 because the duty is figured on the value in U.S. dollars so the German manufacturer benefited from the $7,000 selling advantage over American companies in the United States market.

In the last 2 years we at Morgen have not suddenly become poor businessmen. I and my associates have worked harder and I believe smarter than at any previous time in our history. We have changed our product line to be competitive, over 50 percent of our sales volume comes from products we did not have 3 years ago. We have increased our volume in the domestic market against strong competition by over 25 percent to offset the loss in export business; after losing a lot of money in 1982, 1983, and 1984 we have returned to profitability. Total profits are still held down by unfair foreign competition.

This effort has had a price, today we have only 84 employees (we had 28 percent more in 1981). Our present employees have not had a pay raise in 2½ years, management personnel took a pay cut. We have a pressing need to arrange long term financing to stay in business after 3 loss years. We have applied to the Farmers Home Administration for a guaranteed bank loan. We started the processing of the loan application 8 months ago and are still waiting for approval.

I know from personal contacts that many other small manufacturers in South Dakota have had similar or even worse problems. A number of them are no longer in business. Industrial employment opportunities in South Dakota are decreasing while farmers who cannot sell their crops in the export market for as much as it costs to produce them are forced to seek other employment.

I started my remarks by commenting that there is a long term trend of farms becoming larger and therefore the number of farmers becoming smaller. This has been going on since the 1930's and undoubtedly has a while longer to go until the average farm size more nearly matches the productive capability of modern farm equipment. The reason that our current problems of high interest rates and the high value of the dollar are so debilitating in South Dakota is that we are the most agrarian State in the United States. We are twice as dependent on agricultural production as the next most agrarian State, North Dakota. It is absolutely essential that we develop economic alternatives for people displaced from farming so that they can remain in and contribute to the economy of South Dakota. I believe the help we need consists of reducing the deficit which will reduce interest rates and bring about a more reasonable value of the U.S. dollar in international trade. All of the U.S. economy will benefit from this. In addition, rural America requires a little extra consideration. We need programs to make more money available for existing industry and expanding industry and we need the minimum levels of services, particularly airlines and highways, to make it possible for industry to provide jobs and economic development in rural America.

Thank you.

[The table attached to Mr. Cope's statement, together with the article referred to, follows:]

SCHEDULE A

Population Trends 1970-1990

	1970 Census	1980 Census	1990 Projections	Compound Annual Percent Change 1970-1980	Compound Annual Percent Change 1980-1990
Yankton	11,919	12,011	NA	0.1%	NA
Yankton County	19,039	18,952	19,900	(0.1)	0.5%
Yankton Retail Trade Area	105,978	102,013	103,571	(0.4)	0.2
South Dakota	666,257	690,178	732,282	0.4	0.6

Employment Statistics 1979-1984

	1979	1980	1981	1982	1983	1984	Compound Annual Percent Change 1979-1984
Yankton County:							
Employment	9,456	9,565	9,398	9,026	8,920	9,097	(0.8)%
Unemployment	3.3%	4.0%	4.8%	4.5%	4.6%	4.2%	
Yankton Retail Trade Area:							
Employment	44,969	44,139	43,933	43,090	43,041	43,169	(0.8)%
Unemployment	3.0%	4.0%	4.5%	4.9%	5.1%	4.5%	
South Dakota:							
Employment	324,000	318,000	319,000	312,000	314,000	331,000	0.4%
Unemployment	3.6%	4.8%	5.1%	5.5%	5.4%	4.3%	

Median Household Effective Buying Income 1983 Dollars

	1978	1979	1980	1981	1982	1983	Compound Annual Percent Change 1978-1983
Yankton County	$22,187	$23,633	$21,865	$22,107	$20,708	$21,668	(0.5)%
South Dakota	$19,790	$21,533	$19,921	$18,687	$19,183	$19,824	0.0

Retail Sales 1983 Dollars (in millions)

	1978	1979	1980	1981	1982	1983	Compound Annual Percent Change 1978-193
Yankton	$ 290	$ 313	$ 285	$ 275	$ 255	$ 245	(3.3)%
Yankton County	$ 312	$ 311	$ 295	$ 295	$ 276	$ 269	(2.9)
Yankton Retail Trade Area	$ 974	$ 1,039	$ 948	$ 915	$ 864	$ 849	(2.7)
South Dakota	$10,932	$10,557	$10,384	$10,384	$ 9,823	$10,005	(1.8)

[From Forbes Magazine, May 20, 1985]

Cities/Yankton

Towns like Yankton, S.D. are quietly fighting for their very existence. Their implacable enemies are time . . . and change.

Our town

By John Merwin

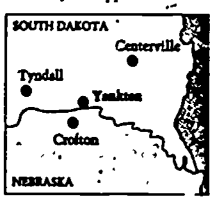
BOOSTERS WILL SAY that Yankton, S.D. (pop. 12,000) glows with the goodness of Grover's Corners, Thornton Wilder's friendly hamlet in *Our Town*. Others, not so charitable, say Yankton more closely resembles Gopher Prairie, the smothering Minnesota town of Sinclair Lewis' *Main Street*. But *Our Town* or *Main Street*, towns like this have been fundamental in the American experience, and today their very existence is in question.

Yankton has not yet passed the point of no return, but the people there can see the brink in the distance. It still has the usual lively contingent of car salesmen, implement dealers, insurance agents, bankers, doctors, lawyers, politicians. In the late afternoon a few old cranks hang out at Boomer's, the bar downtown. And the town has managed to keep two livestock auctions, a slaughterhouse, a K mart, J.C. Penney, McDonald's, Hardee's, Pizza Hut, Kentucky Fried Chicken and, best of all, three beef emporiums where, for under $10, you can loosen your belt and launch into a smoldering, shoe-size steak, buried deep in a plate of home fries.

This doesn't guarantee that Yankton, or towns Yankton's size—urban stepping-stones between little agricultural hamlets and full-blown cities like Sioux Falls or Des Moines—can hang on to enough people, business and critical mass to keep their role. The problem rests with Yankton's orbit of satellite communities, extending, mostly westward, for more than 100 miles. Nearby towns like Tyndall, Crofton and Centerville are in decline, paralyzed by aged populations and failing farmers. That, in turn, saps Yankton, which has made a good living through the years nursing its orbit of little outposts.

Consider the case of Centerville, S.D., a town of 800, well within Yankton's trade area. Bryan Hisel, regional planner for Yankton and 11 other counties, grew up in Centerville. "My father owns a shoe store there," Hisel says. "He's made a good living at it, putting two of us kids through college, the first in our family to go. But Centerville's population is declining. It's getting to be an old population, too, and that's not good for businesses. But even so, my father can still operate the store at a profit, because he has no debt. He operates on equity he's built up through the years."

Outlying towns look to Yankton as capital of this distant corner of the upper Midwest.

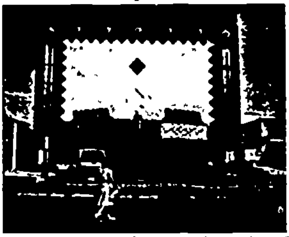


But Hisel won't take his father's place when he retires in a year or two, and that means nobody will. "The volume of business necessary to justify a loan to buy the store simply isn't there anymore," he says. So the shoe store will likely close, and there will be no budding young merchant, one who might raise a family in Centerville.

That passdown from

father to son had been the continuity in this part of the land. That is how Jim Means, the 38-year-old son of Yankton men's clothier George Means, found a way to return home and buy a business. The younger Means, a Yankton College graduate, went to work for Hart Schaffner & Marx in Des Moines, even though he preferred the Yankton life. When his father, a tailor's son who had built a nice clothing business during Yankton's growth period of the Fifties and Sixties, thought about retiring, he sold out to son Jim, but he still helps out in the store. "With today's interest rates, I doubt my son could have started out in business on his own," George says. Again, if there were healthy sales growth, interest rates wouldn't be much of a problem.

Downtown theater, for sale



Yankton is caught in national trends far beyond the farm recession. There aren't many young people, for example. Yankton College, the town's small, liberal arts college with a respected music conservatory, went bankrupt last fall, throwing 100 faculty members out of work and 250 students out of school. Thirty miles west of Yankton a public vocational college, with 160 employees and 800 students, was recently closed by the gov-

Bankrupt Yankton College

Thomas Schramm, farmer turned factory worker

BEST COPY AVAILABLE

ernor, who cited declining secondary school enrollment. Now, instead of training farm youngsters for manufacturing work, it's a prison for sex offenders. Just north of town South Dakota's mental health facility (now called the Human Services Center) has been shrinking as hundreds of patients have been "deinstitutionalized"—let loose—another national trend. With deinstitutionalization have gone 500 medical and staff jobs.

In consequence, Yankton County's age profile is changing dramatically for the worse. Decades ago Yankton's age distribution was pyramid-shaped, narrow at the top with a few elderly people, then sharply wider through the middle—the 30-to-60-year-old, higher-wage-earner categories—and finally splayed wide to a broad base of young people. But now what once was a pyramid looks more like a Greek column. At the top is a growing flare of aged. In the middle is a narrower column of wage earners. Toward the bottom is a modest base of young people. Soon there may be too few taxpayers in the middle-age years to support comfortably the growing proportion of elderly. It's also obvious that young people, the ones in line to replace middle-age taxpayers, are leaving Yankton and outlying towns to seek their fortunes in Omaha, Kansas City, Minneapolis or Denver.

You can't blame them, with so little hope for improvement in the farm economy, which, despite its diminishing importance, still is Yankton's reason for being. Ken Jones, a prominent Yankton businessman and pharmacist who owns three Yankton businesses, tracks his sales by addresses on checks. "Several years ago nearly 50% of my business came from across the river, in Nebraska, which is pure farm territory. Now only 30% comes from over there," says Jones.

Yankton will survive if those breadwinners dropping out of farming can find work in the area, so they will continue to buy sweaters from Jim Means and fill their prescriptions with Ken Jones. Some do, like Thomas Schramm, a third-generation Yankton sodbuster, who, with the aid of his father's equipment and land, began raising grain and livestock in the mid-Sixties. "By 1981 I was losing ground and decided to get out while we still had land and equipment left to sell," Schramm explains. He hired on as a saw helper at Alumax Extrusion Inc.'s aluminum products plant, which started up in 1980, one of a handful of manufacturing operations Yankton has landed.

Buoyed by a loyal, hardworking, rural labor force, Alumax' Yankton plant has quickly turned a small economic miracle, with aluminum shipments rising from 6 million tons to 40 million in the plant's first four years, affording Schramm the chance to rise to supervisor. "If it hadn't been for Alumax, I imagine my wife, four kids and I probably would have left," says Schramm, now 40. As it is, Alumax' 270 employees in Yankton, laboring three shifts, are among the most productive in the company, nationwide. In fact, they are so productive that general manager Jack Earp is lobbying headquarters for more Yankton plant, equipment and opportunity.

To hang on to what surely will be a continuing stream of farm refugees, Yankton must continue beating the bushes for small manufacturing plants and some service businesses. What's plain is that the city's last decade, one of no population growth, is slow poison.

Says City Manager William Ross, "Twelve thousand people is too small to be viable long term today. That isn't enough to support the retail services we need." Ross wants the city to grow to 18,000. "That's enough to attract another leading discounter like Wal-Mart, which we need to protect our retail trade area."

Striving to achieve Wal-Mart status may not sound like much to big-city folk. But to Yankton it means holding its own against Norfolk, Nebr., population 20,000, a rival community 57 miles away, which already has a Wal-Mart. Adds planner Bryan Hisel, "If we don't get first-rate stores, we'll lose market penetration. In what already is an area of declining population, that's a double disaster."

Yankton has a considerable asset in the Missouri River, flowing half a mile wide past the town. "Enough water flows past here in less than a minute to supply the entire town for a day," says Ross. Were Yankton much larger or better situated, it might have water-starved manufacturers lined up, begging to tap the river. As it is, the Missouri is a scenic attraction for campers and fishermen. That's also true for the abandoned 31-acre Yankton College campus, dotted with historic buildings. Ross reckons that if the campus were in Dallas or Atlanta, the grounds would be snapped up by a major company for a training center or headquarters.

Yet the town has a history of resourcefulness. In the 1860s Yankton muscled its way into an appointment as the Dakota Territory's capital by using the influence of a local land promoter, who happened to be a cous-

On the river, Ken Jones (left) and friend Don Peterson

Abandoned farm, near Yankton

in of President Lincoln's wife. Then, in the Twenties, Yankton's citizens privately financed the only bridge spanning the Missouri River for 200 miles, so they could draw laborers and shoppers from Nebraska.

Yankton's people still show a good deal of that mettle. Already the town has developed a sizable medical center, it supports four banks and it's after new industry to employ people like Tom Schramm. City Manager Ross and newspaper publisher Noel Hamiel are stumping hard for a commercial development down along the river, which might lure more out-of-town dollars. Nonetheless, the jury on Yankton, and places like it, is still out. Says Jim Cope, who manufactures construction scaffolding, conveyors and concrete pumps: "We're at the point where if we don't go up, we are going down."

Jim Cope at home

Is Yankton really entitled to survive and prosper? Cope, who still sports a crew cut, ponders the question for a moment, and his answer seems almost an echo of Thornton Wilder. "We all have to be someplace," he says slowly. "I think Yankton is a good place to be. I guess that's about what it boils down to." ■

Senator ABDNOR. Thank you, Mr. Cope, for a very excellent statement. I think both you and Mr. Howard have placed rural America in the right perspective.

Our next two witnesses are from the academic community and I am glad to have an opportunity to hear what that side has to provide.

As I said, the prognosis with respect to the perception we have for rural America has not been good in any way from the rural reports you look at and the things you talk about.

On the other hand, I still hope to come up with some of the answers and confront some of the problems we have to confront out in rural America.

But part of what we're trying to do is to bring this to the attention of not only the members of Congress but members of the whole Nation.

Sometimes the food products that people eat, they just don't realize what it's all about. Some of them think it's made in the supermarkets and I think many of our Members of Congress—75 percent of the people living on 2 percent of the land don't recognize that maybe the other 25 percent of the people, the rest of the country, are pretty important, too, and they really don't realize how serious the situation is.

And hopefully coming out of this committee and our hearings we will begin to be able to build material together to cover this in more detail and bring to the attention of the members a little more emphasis on it. And maybe we can start to improve the situation and certainly I'm looking forward to hearing from our next witnesses.

He's not new to this committee. Mr. Luther Tweeten today is making his third appearance before our committee. He is regents professor in the Department of Agricultural Economics at Oklahoma State University.

His expertise is widely known throughout the public and educational circles and equally as well among our Joint Economic Committee members and staff. We are extremely pleased that you were able to come back and testify today.

STATEMENT OF LUTHER TWEETEN, REGENTS PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, OKLAHOMA STATE UNIVERSITY

Mr. TWEETEN. Thank you, Senator Abdnor. It is indeed a pleasure to be back. I want to add that I lived in Rapid City, SD, for a year back in the 1950's. I still have very fond memories for Rapid City and for the State of South Dakota. It's a great State, Senator.

Senator ABDNOR. We thank you. Were you with the college?

Mr. TWEETEN. I was with the Army.

Senator ABDNOR. Oh, I should have known that. Well, good. That gives you a good perspective.

Mr. TWEETEN. Before suggesting elements of a desirable rural development policy, I list four premises or judgments upon which this rural development policy is based.

No. 1 is that it's important for the Federal Government to help maintain a safety net for those who are unable to provide for their own basic needs out of their own resources.

No. 2, where markets are not distorted the private sector is more efficient than the public sector in turning resources into goods and services desired by people and therefore we should rely, to the extent possible, on the private sector.

No. 3, the chief role of the Government is to correct market failures.

The fourth point is that the unit of Government closest to the people can best make decisions regarding funding and provision of rural services—given that cost and benefits are realized within the funding jurisdiction. In the case of national defense, where the services are for the Nation as a whole and cannot be confined to any one area, it is appropriate that the funding jurisdiction is the Nation as a whole. In the case of rural services, a local community realizes the benefits and is in the best position to make decisions regarding funding and provision of that service.

With this background, I will list the four principal economic problems of rural areas and an appropriate public response for each.

The first reiterates a theme that I have heard from the previous two speakers and that is the problem of an unfavorable macroeconomic environment in rural areas. High real interest and exchange rates, caused mainly by huge structural Federal deficits as far as the computer eye can see, have taken a heavy toll on employment and firms in rural areas.

Agriculture is hardest hit for three reasons: One is because capital for workers in agriculture is double that of other industries on the average, and the major cost of capital is the interest rate.

The second element is that agriculture is a net debtor. Creditors gain from high real interest rates but debtors lose and the farmers as a whole are major net debtors.

A third point is that agriculture is a major exporter. Approximately one-fourth of agricultural earnings are from exports. A few years ago it was one-third. This is a much higher dependence on exports than other industries on the average. So with the high value of the dollar, agriculture is especially disadvantaged.

Other industries, as we have heard from the previous two speakers, are also disadvantaged. They didn't but could have listed the textile industry and the mining industry as other industries that either compete with imports or that export. Many of those industries went to rural areas looking for lower cost labor, and are now competing with imports from other countries where labor costs are low and where their export situation is helped by the high value of the dollar.

The solution to this problem lies in many areas, but the most important is for the Federal Government to regain control of the budget. I would suggest that a reasonable rate of dealing with that problem is to reduce the budget by an additional $50 billion a year over each of the next 4 years.

A second problem in rural areas is inadequate human resource maintenance and development. Poverty rates are higher in rural areas than in metropolitan areas. In the case of farm families, the poverty rate is over 20 percent. Schooling resources are often inadequate in rural areas and so we see rural people lagging behind their urban counterparts in schooling attainment. Part of the problem is inadequate resources.

Another part of the problem is the spillout of schooling benefits from local funding jurisdictions. On the average, the local district pays about half of the public schooling costs. In many rural areas that we have surveyed, 75 percent or more of the persons schooled in those systems leave for other areas, frequently to high-income urban areas.

So the transfer of funds—and it's usually uncompensated by spillings of other people—is frequently from low-income rural areas to higher income urban areas. To promote equity I call for the Federal Government to at least maintain its support for public education and if possible to increase it to compensate for spillover of benefits.

A similar situation exists for poverty. New York and Chicago have a stake in welfare problems in Mississippi and West Virginia because inadequate welfare programs in Mississippi tend to result in people leaving Mississippi to go to Chicago or elsewhere where they can get more generous benefits. A Federal role is necessary to assist especially the poorer rural States so that they can provide minimum adequate welfare services for their residents.

A third major problem in rural areas is underemployment. Billions of dollars of work force programs in this country are allocated according to unemployment, but unemployment is a poor measure of need for work force services in rural areas.

There are several reasons for this. One is the fact that the proportion of self-employed workers in rural areas is very high compared to that in urban areas. Farmers, for example, don't get recorded as unemployed, even though their work is providing a negative return and they're not being rewarded for the human resource they put into their business.

A second reason why unemployment is a poor measure in rural areas is because of a lack of employment offices and unemployment insurance coverage in rural areas. An individual not reporting to an employment office and not covered by unemployment insurance is unlikely to get picked up on unemployment rolls.

A third difficulty is that the current population survey which measures unemployment is unreliable for rural areas. The U.S. Department of Labor uses the "handbook method," an unreliable procedure, to estimate unemployment in rural areas.

Two basic approaches to rural development are used: One is to bring people to jobs. Here I'm talking about outmigration. It's largely unplanned and uncoordinated except by the individuals who are making separate decisions as to what to do.

A second development approach is to bring jobs to people. A number of Federal agencies are involved in this program. One of them is the Economic Development Administration; another is business and industrial loans of the Farmers Home Administration. These programs have been poorly funded and poorly focused.

Initially, the Economic Development Administration focused on rural areas that had high unemployment. But because of political pressures, its focus has shifted to a great extent to urban areas, many of them wealthy.

I despair of reforming these agencies and these programs and I think it's time to phase them out. Although I have no great opposition to guaranteed loans that provide minimal Federal subsidies, I propose instead a wage earnings supplement that is self-targeting.

Basically, this program provides a Federal subsidy equal to, say, half the difference between a target wage and whatever the best wage worker can get from an employer. The advantage of this program is that it makes it possible for the employer to hire disadvantaged people who otherwise would not be employable. Those same people get a socially acceptable wage, the program expands employment and it keeps us competitive in industries where foreign competition is intense.

A further problem in rural communities is providing community services. A unique characteristic of rural areas is low density of population. Population sparsity raises cost of providing community services. The question is what is the appropriate Federal response? Subsidies to electricity, water, telephone, and other rural services encourage urban sprawl into the countryside and encourage people to locate in high cost places when lower cost locations are available. So I suggest phasing out those community service subsidies and using the funds saved for other programs such as the wage earning supplement.

I also suggest upgrading the capabilities of the cooperative Federal State extension service to help rural communities plan for and administer community services. With this help communities can pay for and build the level of community services that they want and can afford to pay for.

Data systems need to be improved for rural areas. We have a vast amount of information on the cost of living in metropolitan areas but essentially no information on the cost of living in rural areas. We have a substantial amount of information on unemployment, but we only have crude measures of underemployment. As I indicated earlier, underemployment rather than unemployment is the appropriate measure of need for labor force services in rural areas.

We have metropolitan statistical areas on which vast amounts of data are recorded, but we don't have a rural counterpart. I propose publishing data on the basis of rural statistical areas established to provide a framework for reporting data that would save on the cost of gathering that data and would provide a counterpart to the metropolitan statistical areas data. Underemployment as well as other statistics would be reported for rural statistical areas, providing information on the socioeconomic position of rural areas by which to improve design and operation of public policies. Thank you.

[The prepared statement of Mr. Tweeten follows:]

PREPARED STATEMENT OF LUTHER TWEETEN

Formulating a Rural Development Policy

Introduction

The migration turnaround in the 1970s apparent in higher rates of growth in employment and population in rural than in urban (metropolitan) counties diverted attention from persistent rural economic problems. Migration patterns in the 1980s have reverted to the traditional pattern: From 1980 to 1982, population and employment grew faster in metropolitan than in nonmetropolitan counties. With the focus back on rural areas, it is well to reexamine problems of rural underemployment, poverty, and difficulties of delivering services to sparsely populated areas. Of special concern is the role of federal policy in addressing these problems.

Premises and Judgments

Before presenting specific federal measures appropriate to address rural problems, I list premises which constitute the rationale for the policy suggested later.

-- The first premise is that a chief role of government policy is to correct market failures. Such correction must be done with great care and only with some confidence that gains from government interventions will be greater than the cost of the market failures the interventions are designed to correct.

-- A second premise is that if incentives are not distorted, private markets are more efficient than government in converting resources into products desired by people.

-- The third premise is that the unit of government closest to the people can best make decisions regarding funding and provision of public services — given that costs and benefits are realized within the funding jurisdiction. Hence national defense must be a responsibility of the federal government because benefits are not confined to county, city, or state borders. But benefits of a rural water system are local and local people can decide how much resources to devote to it. Separation of costs from benefits invites mismanagement and waste.

Rural Problems and Appropriate Public Policy Response

With the above background, I now enumerate major economic problems confronting rural areas.

Unfavorable Business Environment and Macroeconomic Policy

U.S. macroeconomic policies of the past decade have been a major source of economic difficulty to rural areas. Uncontrolled federal deficits have raised real interest and exchange rates. High real interest rates are hardship enough in themselves, but some of the most insidious impact comes through international linkages. High real interest rates raise exchange rates which in turn price American products out of international markets and out of domestic markets confronted by low-cost foreign imports. Agriculture has been particularly devastated. The farming industry is under severe financial stress because it has double the capital per worker of other industries (interest is the major cost of capital), is a major net debtor (farmers owe others $100 for each $23 that others owe them), and depends heavily on exports (with less than 3 percent of the nation's population and income, farmers account for one-fifth of U.S. exports).

High interest and exchange rates have also created hardship in the mining and textile industries, both prominent in rural areas and facing stiff competition from imports.

The most important thing that public policy could do today to help rural areas would be to regain control of the federal budget. The appropriate policy is for the federal government to incur deficits during recession and a balanced or surplus budget during full employment where "full employment" today is approximately 7 percent unemployment. That "full-employment" rate needs to be reduced but macroeconomic policy alone will not suffice. Demographic changes slowly occurring in the work force, notably fewer young persons reaching the age of employment, will reduce the unemployment rate. But the process can be speeded through structural policies discussed later to reduce the natural rate of unemployment.

Human Resource Maintenance and Development

Rural people have utilized general and vocational-technical schooling to improve their human resources and to increase earning power. Given their socio-economic background and opportunities to use skills, they have nearly caught up with schooling of their urban counterparts after lagging for decades. But spillover of schooling benefits across boundaries creates inequities in funding. In many rural communities, 90 percent or more of school graduates leave the school funding jurisdiction. These migrants leave with millions of dollars of schooling invested, mainly through local property taxes, at great sacrifice. The transfer is often from low-income rural communities to more wealthy cities where migrants settle. The federal government currently funds less than one-tenth of common schooling.

That percentage could be doubled to compensate for spillover of benefits.

The second problem is deprivation among those who lack potential for developing earning capability. Examples are the poor who are the severely handicapped and the aged. These and other disadvantaged persons need welfare assistance. Again, as in schooling, spillovers are prominent. The poor in places where welfare is inadequate move to areas providing more generous assistance. Thus, Chicago and New York for example have a stake in welfare programs in West Virginia and Mississippi. States least able to provide a minimum safety net frequently have the heaviest burden. The federal government could do more to ease the burden and reduce wide disparities in welfare payments among states. Rural states often have greatest difficiencies.

Underemployment

Lack of local opportunities to utilize inherent and acquired human resource skill causes high underemployment in many rural areas. Outmigration has helped to ease problems but difficulties remain. Underemployment is defined as earnings below what would be a reasonable level of earnings based on national standards for persons of a given age, education, and experience level. Billions of dollars of federal funds are allocated to work force programs based on the criterion of unemployment. Unemployment is an inadequate indicator of need for human resource development and employment services in rural areas. Rural persons seeking work are often far from public employment services or are not covered by unemployment insurance, hence do not get picked up on unemployment roles. Many underemployed people in rural areas are not reached by federal surveys of unemployment or are self-employed persons never designated as unemployed. Consequently, rural people are undercounted and underserved by federal work force and development agencies. Underemployment would be a better measure than unemployment of the need for job development opportunities in rural areas but the federal government has never invested sufficient resources to develop proper measures of underemployment (see Gilford, et al.).

The two principal ways to alleviate underemployment are to bring people to jobs and to bring jobs to people. The greatest source of improvement in economic well-being of rural people has been to bring people to jobs. Millions of past rural to urban migrants were little helped by public employment service, job information, work force training, counseling, or other assistance. Some pilot programs to publicly assist migration to areas with jobs were attempted but later terminated. Valiant efforts have been made to overcome the urban bias of the U.S. Department of Labor. I despair of success for any effort to overcome that bias. Rural advocates might as well turn their attention from efforts to improve federal work force services in rural areas.

An alternative is to bring jobs to people. Programs under the Economic Development Administration (EDA), the Farmers Home Administration (FmHA operating under the Rural Development Act of 1972), and several other agencies have attempted to promote place prosperity by bringing industry within reach of rural people. Approximately two decades of such activity provide no basis for optimism. The EDA early relied mainly on the criterion of unemployment to direct program benefits. Rural areas ranking high in underemployment but not in unemployment bypassed. Urban areas disproportionately captured the benefits of EDA and farmers disproportionstely captured the benefits of FmHA. I despair of trying to revive past programs or meaningful future programs along the lines of EDA and FmHA but specifically targeted on the basis of underemployment. Urban enterprise zones extended to depressed rural areas would undoubtedly fail as badly as EDA and FmHA job development efforts.

An appropriate response is for the federal government is to terminate the EDA and FmHA efforts to create jobs in rural communities and replace such efforts with a wage-earning supplement that would automatically target marginal-workers while relying on the market to induce industry to locate jobs where costs are lowest. A wage-earnings supplement is proposed to reduce labor costs to employers and raise earnings to workers -- particularly marginal workers most likely to experience chronic unemployment. The wage supplement would be provided to employees by the federal government equal to say 50 percent of the difference between what they can earn from an employer under a competitive wage system and a target wage of say $6.00 per hour. Ideally, the minimum wage law would be terminated and the supplement paid to the worker. (If the minimum wage law is not terminated, the supplement would need to be paid to employers.) Workers receiving a higher wage would receive greatest total income including the supplement, hence workers would be encouraged to compete for the highest paying jobs. The employer would have incentives to obtain the greatest productivity possible from workers, including those receiving the wage supplement. A marginal worker only able to receive $1.00 wage per hour would receive a .5 ($6.00 - $1.00) = $2.50 wage supplement per hour to bring total pay to $3.50 per hour for an annual income of $7,000 if employed 2,000 hours. The target wage could be increased for age. Persons of high school or younger age might not be eligible for the supplement until completing high school or until showing proper certification that they are incapable of completing high school.

An earnings supplement would be used for those who do not work for wages. Under the earnings supplement, the federal government would match $1 of earnings with a $1 of supplement up to annual earnings of say $2,000, after which each additional $1 of earnings would subtract $.50 of supplement. Thus a worker earning $2,000 would receive a supplement of $2,000 for a total income of $4,000. An additional $4,000 of earnings would eliminate the supplement but total income would be $6,000.

The self-targeting supplement programs would decrease unemployment among marginal workers, would increase output in labor-intensive industries, and would transfer income to those who have low earnings. The program would especially benefit rural areas characterized by low income and underemployment. Compared to current welfare programs, which would be retained, the supplement program would better serve the poor who are working and in households with an able-bodied male present -- characteristics found disproportionaly in rural areas.

Meeting Community Service Needs in Sparsely Populated Rural Areas

The unique characteristic common to rural areas is low density of population. Because there are economies of size in provision of most community services, low population density means high costs per capita of providing community services such as water, electricity, roads, and schools. Many rural communities cannot afford the planning staffs to determine appropriate and economically efficient service delivery systems. The Cooperative (federal-state) Extension Service can perform an important role in providing technical assistance to plan community services and development. The Extension Service can also help communities to utilize local talent resources by identifying leadership, organizing committees, and in general helping to improve the processes for communities to organize for economic development.

The U.S. Department of Agriculture sometimes has overemphasized the role of the Cooperative Extension Service in promoting economic development. It is naive to believe that an economically depressed, low-income community can pull itself up by its bootstraps. Outside assistance in the form of aid to education and welfare services along with a wage/earnings supplement as outlined above are essential for severely depressed communities to make much headway against poverty and underemployment. Facelifting main street is useful but alone does little to raise incomes and create jobs.

On the other hand, it is difficult to build an economic rationale for federal subsidies to provide rural community services such as electricity, telephone, water, and the like. The major justification for provision of such services would be if communities are uniformly poor. Only rarely are rural communities poor; rather it is selected individuals and families who are poor and they are helped best by targeted poverty alleviation programs. Some rural communities want low taxes and minimal community services. It is presumptuous for the federal government to force community services and housing on rural communities that the local people would not choose if they were free to make the decision.

Data Requirements

As noted earlier, federal agencies outside of the U.S. Department of Agriculture have tended to have an urban bias. That bias is apparent in statistical data systems. Three suggestions for improvements in data systems are listed below.

Cost of Living

Estimates of real earnings and income are necessary to determine buying power and comparability of earnings in rural and urban areas. It is difficult for economists to evaluate well-being of rural people and economic efficiency without measures of cost of living in rural areas. Cost of living data are available only for metropolitan areas. Data for rural areas are long overdue.

Underemployment

As noted earlier, billions of dollars of federal funds are allocated by the criterion of unemployment. Even if unemployment were measured correctly, it is simply the wrong concept. In contrast to people in urban areas, rural people are frequently employment but not up to their earning capacity as measured by age, education, and experience. Underemployment measures this need for work force and other services. Federal statistical agencies need to begin work on measures of underemployment not only for rural areas but for the nation as a whole.

Rural Statistical Areas

A vast amount of census, labor force, cost of living, and other data are made available for Metropolitan Statistical Areas (MSAs) but not for rural areas. To reduce costs of providing data for rural areas, it is proposed that Rural Statistical Areas (RSAs) be designated and data reported on that basis. The RSA concept would reduce costs of collecting and reporting data. Areas designed would be relatively homogenous with regard to measures such as cost of living and underemployment. An RSA would sometimes but not always follow state boundaries.

Summary and Conclusions

Disarray in rural development programs is no recent phenomenon. But programs have fallen on particularly ard times since the demographic turnaround in the 1970s when rural areas began to gain population and employment more rapidly than did urban areas. The pattern prior to the 1970s reasserted itself in the 1980s. Critical needs in rural areas remain, particularly to address problems of poverty and underemployment which have persisted in a number of parts of the country. These problems can be addressed as part of a nationwide effort to relieve poverty and underemployment in rural and urban areas alike.

The market has been by far the most important vehicle for regional development and considerable progress has been made in reducing regional income disparities. Many pockets of poverty and underemployment remain and it is well not to repeat the mistakes of the past in which programs were frequently too modest in size and poorly focused to form the critical mass that could make a difference. Proposed initiatives such as Urban Enterprise Zones featuring tax incentives to locating industries will not do even if rural areas are included because the program would not target on poverty and underemployment. Programs such as EDA have failed because the criteria for providing incentives have been misguided or obscure — there is no reason to expect more from enterprise zones.

Accordingly, the programs proposed herein are deliberately kept few and simple. These programs are to:

(1) Provide a macroeconomic policy promoting sustainable economic progress with a reasonably stable general price level. The major current need is to move towards a balanced federal budget as a means to reduce real interest and exchange rates.

(2) Increase federal funding for education and poverty (welfare) programs.

(3) Begin a major new program of wage/earnings supplements to employ the disadvantaged, permit low-wage labor intensive industries to compete with imports, and to increase output of the nation. To finance the supplements, terminate a number of programs such as subsidies to rural community services, revenue sharing, and Economic Development Administration and Farmers Home Administration programs of industrial loans, grants, and technical assistance.

(4) Utilize services of the Extension Service to provide minimal economic planning and organizational services so that rural communities can utilize their resources to efficiently provide the level of services they desire and can afford. This program would entail only modest additional federal outlays.

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Senator ABDNOR. Thank you. That's very helpful.

Our last witness, and I'm happy to have him back with us today, because I have great respect for his expertise, is Mr. Brady Deaton, who appeared before the Joint Economic Committee 1 year ago when this subcommittee was considering the impact of the agricultural economy on small towns and businesses.

Mr. Deaton is a professor of agricultural economics at VPI, and it is a real pleasure to have you back.

STATEMENT OF BRADY J. DEATON, PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY, BLACKSBURG, VA

Mr. DEATON. Thank you, Senator Abdnor and ladies and gentlemen. It is a pleasure for me to be back before the Joint Economic Committee.

Senator ABDNOR. Excuse me. If you see me get up and leave in a little while, it's because I've got to go vote. But, you go right on.

Mr. DEATON. That's fine. Thank you.

It is a pleasure to be before the Joint Economic Committee again and to have been invited to appear before this distinguished group of guests. I want to also commend the subcommittee for taking this broad-based view of the rural economy of America because I think, for too long, we have had macroeconomic policies made in isolation from agricultural policy and agricultural policy made in isolation from macroeconomic policy, points that Mr. Tweeten emphasized also in his remarks.

It is essential that we examine the interrelationships between the farm and the nonfarm sectors, and the thrust of my remarks this morning are to try to look at an economic strategy that can be based on recognizing the tremendous importance of the nonfarm sector to the farm sector, and vice versa.

When we recognize that two-thirds of the farm families' income in America comes from off the farm, I believe that's evidence enough that we must have both farming and nonfarming enterprises working hand in hand in rural America to create the kind of living environment that we want to try to create for a quality life in rural areas.

If we look at rural economies today, I think we see some dangers and promises. From the standpoint of dangers, we see a greater cyclical vulnerability of the rural economy to international events; the over-valued dollar has been emphasized already.

The product cycle is also leading to certain manufacturing firms moving abroad and represents another depreciation of rural America's job opportunities. Also, during this period of financial deregulation, we are not at all sure what the net effect is going to be on rural communities across the country, whether we are going to continue to see the capital flight mentioned in one of the earlier testimonies, or whether we are going to see a net inflow of capital back into rural manufacturing and business and agriculture to provide the job opportunities that are needed.

The answer to that question remains to be seen, but it's something I think we should be cognizant of and examine carefully.

Senator ABDNOR. Could I stop you for 5 minutes? I'll try to make my vote and come right back.

Mr. DEATON. Sure.

Senator ABDNOR. I hate to ask you to do that. We'll have a brief recess.

[A brief recess was taken.]

Senator ABDNOR. I have voted and we can continue, if you don't mind.

Mr. DEATON. Thank you. I was just talking about some of the increasing vulnerabilities that rural economies and rural communities are facing today. In addition to the cyclical aspects of the current economy, our real concern, I think, is that the basis of economic growth in society is changing more toward information dependence than has been true in the past. And Nobel Laureate T. W. Schultz has coined a phrase, "information as power in agriculture."

I think it's fair to say that information is the power and driving force of economic change that's going on throughout rural America, and America, in general, today. And unless we are able to develop the kind of school system, extension service and public information system, the kind of data needs that Professor Tweeten has already strongly emphasized, we are likely to develop an information-rich component in our society alongside an information poor component and drive apart the potential sharing that can occur.

In other words, we are likely to create more rural poverty in the future than we have in the past unless we address this issue head on. I think, to do that, along with addressing many of the other needs, we need to have shown, certainly at the Federal Government level, a real commitment, a real leadership to address some of the rural needs. And I certainly don't need to remind Senator Abdnor and other members of this subcommittee of this, as I know you have provided leadership in this area.

But if you look at the history of development in this country, the type of rural infrastructure that has given access to the rural communities across the country, to banking, telephones, air lines, farm-to-market roads, electrification—these factors have been provided by a strong public commitment to guaranteeing access to some minimum level of services that we need in this country.

We saw some examples in Mr. Howard's and Mr. Cope's testimony of the kind of forward-looking leadership that we need to see more of in rural America today.

Let me take a moment to emphasize some components of a rural development strategy that can help turn many of the lagging rural communities into full participants in our economy. I think it's important to emphasize the fact that the educational sector does lag in many areas of the country, and that rural poverty in the last few years has been on the increase throughout most regions of the United States.

We have to turn more attention to providing the educational support in primary and secondary education, in the community colleges and in training programs that can elevate the skill and knowledge base of our people, fitting them into the kind of information society that we are moving into.

Technological change is ongoing and for that technological change to be rapidly adopted in rural areas, we need more of an environment of security. And one thing I think that the interdependence between farm and nonfarm sectors we have been talking about this morning provides is more of a secure income stream for farm households, so that we can see in farm households that depend on nonfarm income the potential for shifting out of some of the more traditional agricultural crops where the price-cost squeeze may be so severe that an adjustment off the farm may be needed. Many of these farms can move into alternative enterprises.

For example, in southwest Virginia, where we have a real squeeze occurring in the tobacco farming region, we are trying to look at alternative crops that provide new economic opportunities for these farm families.

Now to achieve this more effectively, we are going to have to have more balanced job opportunities in the nonfarm sectors, so that the household doesn't run the risk of losing everything it's got when it tries to take a more innovative stance in this regard. So I think that the important aspect of the farm and nonfarm integration that I see is that it reduces income risk for the household and provides an environment for more innovative economic alternatives.

I want to close by calling attention to the approach we have been taking in Virginia to deal with some of the issues of human capital development and new enterprise development in the rural parts of the state. After working with the State legislature, we formulated an idea which we have called the Rural Virginia Development Foundation. Now, the purpose of this foundation is to stimulate private sector venture capital to be invested into rural firms—small businesses in the rural parts of the state.

And we have also encouraged the development of what we call value-added industry; that is, small businesses and manufacturing firms that take the latest technological ideas coming out of our land grant universities and out of the private sector. And we have urged the State to provide certain State support for developing prototype plants in rural communities to take the agricultural products, the fisheries, the mining and the forestry and do further processing and modify it into new products that have access to some of the larger consumer markets in the country and around the world.

We believe that this approach has promise if we can draw on the significant positive examples that venture capital throughout this country has provided. But it takes a creative partnership between the public and the private sector to bring this about.

While there is a need, as one of the earlier speakers indicated, for continuing loan guarantees to small business, we believe there is a need for stimulating more equity investments on the part of the private sector, perhaps jointly with local governments and some aspects of the public sector to achieve this objective.

The foundation, in addition to emphasizing the private sector venture capital investments in small firms, we have emphasized the need for identifying and training entrepreneurs and providing educational support through extension for our community colleges and our entire educational system to create an atmosphere in which entrepreneurs are willing to take a chance, as they have been doing in the agricultural sector for a long time.

And we also believe there needs to be a technology transfer mechanism created that links higher education systems with the private sector and with the public sector to identify new ideas and put them into operation as quickly as possible in those parts of the country where we can try to achieve a balanced economic growth upon which a healthy rural economy depends so vitally.

If we can build on these kind of interdependencies, I think we're going to be able to, in the future, address more directly some of the hard core problems of poverty and to speed up the convergence of incomes between rural and urban America. Thank you.

[The prepared statement of Mr. Deaton follows:]

PREPARED STATEMENT OF BRADY J. DEATON**

Strategies For Strengthening the Rural Economy*

The economy of rural America is undergoing a continuing transformation. Both domestic and international forces are reshaping farm/nonfarm interrelationships with significant implications for the sectoral and spatial allocation of resources. A new understanding of federalism is being sought at the national level, while a new sense of what constitutes rural communitites is being explored at the state and local level. These dynamic economic and social forces and related policy deliberations require a reexamination of traditional agricultural and macroeconomic policies and a willingness to seriously review and where required design our political and financial institutions.

The purpose of my presentation is to identify some important factors in the economic relationships between the farm and nonfarm sectors of rural economies and to propose policy strategies that build on the potential new strengths that are emerging in rural America. I will argue that fulfilling the new potential requires concerted leadership and strong committment by both public and private sectors of the nation.

EMERGING FORCES SHAPING THE RURAL ECONOMY

Before addressing specific aspects of farm/nonfarm interactions, I want to take a moment to highlight a few of the important trends that are now shaping the rural economy.

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*Testimony presented to the Joint Economic Committee, Congress of the United States, May 15, 1985.

**Professor, Department of Agricultural Economics, Virginia Polytechnic Institute and State University, Blacksburg. The author benefited from discussion of this topic with colleagues J. Paxton Marshall, Thomas G. Johnson and Randy Kramer, Virginia Polytechnic Institute.

<u>First</u>, international market forces play an increasing role in shaping rural affairs. These forces are accentuated by domestic deregulation of our financial system. Ironically, our private financial structure is becoming centralized at the very time our federal system is becoming more decentralized in terms of fiscal authority and control. States and localities are grappling with these rapidly changing events.

<u>Second</u>, local economies are becoming more vulnerable to cyclical economic forces driven by technological change and, in part, by international events. We aren't that far removed from the Russian Wheat deal and the OPEC embargo, twin events that impinged pecularily on rural economic affairs and which awakened rural leaders to the extent to which their destinies are linked to the broader world. More importantly, we are now discovering the harsh realities of an industrial product cycle that does not recognize national boundaries. As we move into an information-based society, many manufacturing plants are moving to cheaper labor markets in third world countries. Our educational system, especially land grant colleges and universities and community colleges, must move rapidly to address the human capital needs that are generated by these technological realities.

<u>Third</u>, demographic changes continue to affect labor and capital markets in rural areas. Migration and return migration sharply alter the job-labor availability ratio resulting in high levels of unemployment persisting even in high growth areas. The imbalance results from our lack of understanding of rural labor markets and our inability or unwillingness to develop effective public policies that address the needs of the unemployed.

In addition, the aging of the population and the movement of the elderly into selected rural areas creates a new flow of private and public transfer payments and a new set of service sector demands. Retirement-oriented transfer payments represent 14 percent of per capita income in rural areas of the U.S as compared to 10 percent for metropolitan areas (Smith, Willis, and Weber).

FARM/NONFARM INTERDEPENDENCIES: TOWARD A NEW PERSPECTIVE

Agricultural policy has always contributed in important ways to the growth of non-farm business and industry; but the interrelationships between the farm and non-farm sectors are generally not explicitly recognized and have seldom been drawn into the agricultural policy debate. Similarly, monetary and fiscal policies appear to be formulated without a very clear notion of their spatial implications. These are surprising weaknesses for a nation whose historical "Westward expansion," and agrarian tradition still command public attention if not our purse strings.

Nonfarm employment affects agricultural development through its impacts on both the capital and labor markets, by reducing family income risk, and through the services provided by rural communities to the farm population. Both public and private sectors are important here. Public service demands direct our attention to the incidence of taxation on the agricultural sector as local property taxes are a principal source of finance for locally provided public services, especially primary and secondary education.

The nonfarm employment sector creates additional savings which flow into local financial institutions to some degree. These buoy up the potential financial base of the community including the lending potential to the agricultural sector. Deregulations of the banking industry may have eroded the significance of this contribution to agriculture, as relatively less farm lending appears to be occuring in integrated banks as compared to independent banks (Markley, 1984).

More significant is the potential that the nonfarm sector holds for stimulating linkages on both the input and product sides of agricultural production. Lower cost inputs may be provided because of the proximity of input supply firms which gain sufficient economies of size to merit the establishment of local supply firms. On the output side, value-added industries may be developed to stimulate further non-farm employment. Simultaneously, this generally means greater farm profits at the local community level. Specialty crops such as grapes, apples, and other fruits and vegetables may lend themselves to this potential, although major grain crops are not exempt. New technological processes are likely to emerge as attention is given to such specialty crops. Also, venture capital can play a vital role in stimulating new entrepreneurial efforts in this area (Deaton, Johnson, Farmer, and Schwartz).

The Factor Proportions Issue

The labor market interrelationships have implications for the future capital intensity of agricultural production, at least for some aspects of production. Higher capital/labor ratios for part-time farmers have been almost universally observed in empirical research reported by OECD, 1977 and '78; Schneeburger, Comer and Edwards; and Johnson and O'Grady (Johnson, p. 14). Also, part-time farming has been tied to lower per acre production of agricultural products, a logical consequence of the higher opportunity cost of labor for part-time farmers.

Theoretically, nonfarm employment opportunities create competition for own-farm use of labor and would tend to result in a steeper supply curve for own-farm employment. In other words, the family's labor use on their farm must be as productive as the off-farm work in order to effectively compete for the labor. As nonfarm jobs are taken by farm family members, the total hours worked by the family will likely increase, but the amount spent on farm work will likely decline. The per hour value of labor on the farm will increase (Johnson, p. 10). Of course, some work on the farm will be viewed as recreational and will be undertaken for its psychic benefits.

Melichar has provided a recent analysis of the relationships between off-farm earnings and the farm debt load which further clarify the importance of these points. As he states the case:

> At the extremes, operators of the very large farms have 18 percent of the debt but only 2 percent of the off-farm income; operators of the smallest farms owe only 4 percent of the debt but have 27 percent of the off-farm income (Melichar, p. 8, see his Table 4 attached).

For the roughly 73 percent of U.S. farms that fall in the value-of-sales classes below $40,000, net farm income is not directly related one way or the other to the farm debt crisis. For the most part, these farm families have relatively little farm debt and significant off-farm income. Melichar points out that financial stress is likely to be greatest for farmers in the sales classes between $40,000 and $499,999 with debt-asset ratios above 40 percent. This group represents 210,000 operators (9 percent of all farmers), owns assets equal to a tenth of total farm assets, and owes a third of total farm debt (Melichar, p. 14). Melichar estimates that over half of the heavily indebted operators fall in the sales class of $40-99,000 (See his Table 9 attached).

This group of farmers most likely do not have significant off-farm income, and may face tough choices between using family labor on the farm vs. off-farm employment. Both psychological and financial stress is probably greatest for this group of farmers. Farm crisis counseling through extension services should be strengthened to address these needs. Stimulating more off-farm job opportunities and/or alternative cropping patterns represent longer term strategies.

Variations by Types of Farm and Policy Implications

Johnson argued that the farm effects of off-farm employment will vary by type of farm, resulting in the tendency to substitute capital for labor in all enterprises for which such substitution is possible. This substitution will, in turn, favor those enterprises requiring relatively less labor (pp. 10-13). Hence, different enterprise mixes and different factor intensities may be equally optimal depending on the relative capital intensities of different farming enterprises and variations in the stock of human capital within the farm household.

This observation appears to hold profound implications for future agricultural and rural development policy and places a premium on human capital investments. First, the growing incidence of nonfarm employment introduces the opportunity for greater diversity of production methods and choice of enterprises in U.S. agriculture. Thomas Urban, Chairman and President of Pioneer Hi-Bred, recognized that this diversity was growing in his call for a "New Social Contract with Rural America." He called for a rural development strategy based on four principles:

1. Encouragement and support for technological innovations;
2. Direct involvement of rural residents in the planning and execution of programs;
3. Creation of well funded local development and credit programs;
4. Free market pricing of our agricultural products.

A Wisconsin dairy farmer is just not the same as a Virginia dairy farmer when viewed in this context since local institutions, transportation systems, and the structure of local economies vary so sharply. Therefore, the availability of suitable off-farm employment simultaneously determines both the extent of household participation in off-farm jobs and the nature of the farming enterprise (Johnson, p. 13). In turn, the relative utilization of capital and labor in nonfarm enterprises alters the labor interdependence between the farm and non-farm sectors and creates incentives for a variety of capital/labor ratios in each sector.

Briefly stated, then, we should recognize that nonfarm employment opportunities mean different things to different families. Some families use nonfarm income as a means to enter agriculture. Others use it as a means of transition out of agriculture. For many families, nonfarm employment is not a viable option because of the lack of marketable skills in the family, perhaps due to lack of training, age or disabilities.

To these considerations must be added the complexities of household labor allocation between the farm and nonfarm sector. Farm size, risk preferences, and farm credit availability almost certainly alter the household members' desires to participate in nonfarm employment. For example, risk averse farmers may be more likely to participate in nonfarm employment. They create a more elastic labor supply for the nonfarm sector at relatively low wages. At the same time, the more secure nonfarm income stream should create a more conducive environment for adopting relatively more capital intensive on-farm technologies. Therefore, in the face of growing uncertainties facing agriculture and growing nonfarm employment opportunities, we are likely to see greater diversity emerging in the part-time farming sector of the agricultural economy.

Specifically, I believe we are likely to see transitions from traditional to alternative technological enterprises occurring more rapidly and smoothly in those parts of the country where non-farm job opportunities are more prevalent. Technical support from research and extension services must be strengthened to assist in such adjustments. In areas such as Southwest and Southside Virginia, where tobacco is still an important cash crop and alternative cropping patterns are being explored, the transition into new crops may be impeded unless nonfarm opportunities are available to reduce the income risk associated with the new farm practices, marketing systems, and technologies that will be involved. In other words, multi-pronged strategies are required to develop infrastructure and financial support for small business and industry and to insure broad-based research and extension support from our land-grant colleges and universities.

The intergenerational consequences of alternative economic structures should be recognized. Major community institutions are shaped in order to provide intergenerational support for social changes that affect the next generation. Community support of education, the judicial system, recreational facilities, and most long-term investments in social and economic infrastructure attest to this objective. Clearly, this concern holds implications for the integration of farm and non-farm life as well. That is, greater diversity of job opportunities, both within agriculture and between the farm and non-farm sectors, is more likely to provide for broader occupational choice and for an appropriate ladder of economic opportunity for all members of the community, especially low-income families and minorities. There is a strong public stake in the design of an economic system that provides economic opportunity for all.

Recognition of this public responsibility provides the most urgent rationale for balanced economic growth in rural communities. A healthy agriculture requires healthy communities to provide support services and complementary job opportunities. Nonfarm employment opportunities make it more likely that appropriate technologies will be adopted because of the reduced risk of the adoption decision. The expansion of occupational choice through strategies of economic diversification helps provide a stronger ladder of opportunity for rural residents. It also creates a "safety net" of opportunities that use a broader range of job skills, thereby reducing the probability of being unemployed. These objectives can not be readily achieved unless public policy encourages spatially balanced job opportunities.

Government plays an important role in determining the rate of growth of labor productivity in a region. Labor productivity can increase because labor is better trained and educated, because of technological advances which enable a given amount of labor and capital to produce more output, because of the application of more capital per labor-hour, and/or because labor is more satisfied and motivated. The public sector affects labor productivity through each of these factors.

The federal government funds education and training and research in ways which are designed not to favor one region over another, although this education and research can affect different regions differently by stimulating certain industrial sectors more than others and favoring regions with industrial bases in the favored industries. More importantly, the federal investments in infrastructure (for example, roads, water, sewer, airports) increase the rates of return to capital in regions where investments are made, stimulating private capital investments in these regions which, in turn, will tend to increase average labor productivity in the recipient regions. Improvements in transportation and public services that lower industries' operating costs are consistent with this arguement.

"Local" government investments also have a significant effect on regional growth differentials as well. Differences in local spending on education, local infrastructure and local services can affect productivity by increasing the quality of the work force, by stimulating private investment and by increasing the local quality of life. Also, the induced effect of federal expenditures on local revenue generation should not be ignored. Briefly stated, government spending is presumed to affect both the quality of human capital in the region as investments in education make labor more productive and enable firms to pay higher wages, and the willingness of workers to live there as government spending affects the supply of public goods in a region and thus the labor supply curve.

Rural-based, social assets and infrastructure provided by government spending provide a more secure environment for alternative technology adoption. Therefore, it is important that risk aversion be assessed within the context of these factors. Variations in types of farms and types of risk orientation will affect the allocation of household labor between farm and nonfarm employment. Reduced risk stemming from greater off-farm employment will alter capital/labor ratios in both sectors, will provide more secure environments for innovative and "appropriate" technology and, in turn, should provide the basis for enhanced quality of life.

STRATEGIES FOR NON-FARM EMPLOYMENT OPPORTUNITY GROWTH

Barkley recently observed that a rigid neoclassical economic view "about the existence of 13,000 towns in which some forms of capital have near zero opportunity costs" would lead to the recommendation that some of them be closed and their population moved to more viable communities as Hansen and others have recommended. Barkley rejects this prescription as neither popular nor realistic and calls for policies based on a better understanding of human, institutional, and infrastructural (social) capital. While Barkley questions the importance of rural amenities such as fresh air, quietness, and closer personal relationships, as causal forces in the population turnaround of the past decade, other evidence appears to suggest that they may represent very important forces, indeed (Weber and Deaton).

Capital and amenities in my view are the two forces, not unrelated, which hold the key to non-farm employment growth. To a substantial degree amenities are sustained by appropriate public investments in infrastructure. Rural amenities serve as locational constants which help create a favorable environment for attracting new manufacturing plants and stimulating business and industry expansion. Both capital and amenities are being rapidly altered by technological change, by the internationalization of the U.S. economy, and by federal government policies.

<u>The Importance of Community Decisions</u>

Most states are currently engaged in vigorous efforts to reshape and redefine their economic development efforts as new strategies appear to be in order given the structural changes that now confront the U.S. economy. The fervor of these efforts is kindled, in part, by the high stakes being pursued in an environment of intense and sometimes bitter competition among states. This competition is also evident within states as counties and cities vie for new industry through sometimes counterproductive investments in infrastructure and tax incentives that erode local vitality.

Human and institutional capital are essential ingredients of local economic development efforts to attract new manufacturing plants and promote local economic growth. Such leadership helps organize local, state, and federal resources that strengthen the community's appeal. Applied research provides some guidelines for determining which decisions really count. Investments in industrial sites to develop water, sewage, and transportation access are critical incentives for attracting manufacturing plants (Smith, Deaton and Kelch; Kriesel). Other important local investments of statistical significance in various location studies include offers of industrial revenue bonds, fire protection services, quality educational achievement, organized development groups, and educational institutions.

Stinson recently reviewed the rationale for the public sector's increasing role in the recruitment process. First, offers of such incentives as free land, low-cost financing, specialized infrastructure, and tax holidays require public action (Stinson, p. 7). The public good nature of industrial development activity provides further justification for public investments in order to approach a more socially optimal level of investment. Stinson also identified the public role in lowering information costs to the private sector, and discussed the evolution that has occured in the permitting process and in the assessments of economic impacts of economic change (pp. 10-19).

Institutional Innovations: A Virginia Case

In testimony presented before this committee on June 16, 1983, I argued that public support was needed for venture capital and entrepreneurship in order to strengthen small business development in rural areas. We have made progress in Virginia toward realizing the benefits from such programs. I want to share with the Committee the design and scope of the Virginia approach.

A new approach to rural economic development is now being put into place in Virginia. This initiative is under the auspices of the rural Virginia Development Foundation (RVDF). The RVDF represents an integrated approach to human capital development, venture capital, and technology transfer directed toward pilot projects that add value to agricultural and natural resources in rural communities. It is designed to draw heavily on private investments with minimum government subsidies. I want to provide a brief synopsis of the objectives and proposed structure of the RVDF.

A Bill (Senate Bill 279) to establish the Foundation was passed by both Houses of the Virginia Legislature in 1984 and was signed by Governor Charles Robb on April 10, 1984. One of the key philosophies of the Foundation is to assist in the development of businesses that are compatible with a given area's resources, and with the needs and desires of local people and local officials. The objectives of the Foundation are:

1. To provide access to sufficient operating and debt capital for new and expanding small business in rural Virginia, and to target investments towards agricultural and natural resource related businesses.
2. To encourage the development of a human capital program that insures the delivery of targeted and coordinated leadership and manpower

training activities. These programs should be designed to meet the emerging needs of the rural businesses, especially those enterprises developed by programs initiated under the first objective.

3. To identify emerging needs and technological changes that generate products and services which can be produced by rural enterprises in Virginia.

Each of these objectives will be briefly described.

Objective 1: Role of the Economic Development Committee

The Economic Development Committee (EDC) of the Foundation is charged with the task of creating access to sufficient operating and debt capital for small businesses in rural Virginia and targeting investments toward agricultural and natural resource related businesses. The EDC will attempt to develop business enterprises based on new products, new markets, and new uses for existing products.

The emphasis of the EDC will be on expanding "value added" activities based on the agricultural and natural resource base of local economies. The approach will be to build on and further develop local entrepreneurial capabilities, management, and resources. Using the resources of venture capital corporations, the risk of these new ventures can be pooled. By complementing the capital with technical and management assistance, overall risk will be reduced.

The EDC will further help identify emerging technological trends that can enhance the income position of rural Virginians by coordinating its activities with the private sector, with planning district commissions, with the colleges and universities of the state, and with the Virginia Cooperative Extension Service. Efforts will be directed specifically to those businesses that appear likely to promote balanced economic growth and a healthy interaction between farm and nonfarm business sectors. Food processing businesses, wood products industries, computer-assisted marketing arrangements, and other businesses that modify existing resources to make them more accessible to domestic and foreign markets are examples of ventures which the EDC will consider.

A major function of the EDC will be to establish one or more for-profit venture capital corporations (VEDCORPs). They will provide loans, engage in equity financing, and guarantee loans to firms in rural areas of the state. Special emphasis will be placed on providing support to new entrepreneurs and small business ventures, although the needs of established firms desiring to expand will not be ignored. In addition to providing financial assistance, these VEDCORPs, with assistance from the Foundation, will assist businesses by providing financial planning, general planning, and various types of management expertise.

This venture capital approach is based on the assumption that equity finance (primarily for operating capital) is the fundamental aspect of an effective financial support system for small business development (Figure 4). According to the Economist, the rate of return on venture capital in the U.S. is in the range of 50%, and the success rate of the businesses they finance is above 70%, far higher than initial expectations. Clearly, from an economic perspective, more capital needs to flow into the venture capital arena to bring down these high rates of return and to serve a broader spectrum of the development needs of the country.

Like most private venture capital companies, a working philosophy of these VEDCORPs will be to remove themselves from part ownership of a given business as soon as the business becomes fully operational from a profit point of view. Thus, the VEDCORPs would sell their common stock in established businesses in order that the businesses would subsequently be privately owned and operated without VEDCORP involvement.

A major leadership role by the Foundation (PVDF) will be required for a VEDCORP to attract a sufficient capital base. The major support will come from local private investors, private industries, and local governments and development authorities. We anticipate that VEDCORPs will offer counties an alternative means of supporting and encouraging local development by allowing them to either invest in, or "purchase" development assistance from a VEDCORP. These funds obtained from localities will be used as equity capital by VEDCORP to invest in businesses in the localities. In addition, federal agencies will be encouraged to provide funds through grants or loans to the RVDF. The Foundation will, in turn, provide funds to the VEDCORP in exchange for equity stock. Principal sources of such funds may include the Farmers Home Administration, the Department of Housing and Urban Development, and the Small Business Administration.

Objective 2: Role of the Human Capital Development Committee

The second objective of the Foundation will be the responsibility of the Human Capital Development Committee (HCDC). The HCDC will pursue programs that ensure the delivery of coordinated leadership and manpower training activities and efforts. This committee will encourage the development of programs designed to identify and train entrepreneurs, and to upgrade the labor and management skills needed to serve the future economic needs of the public and private sectors of the Commonwealth. Coordination with existing state and federal agencies will be emphasized, and the resources of Virginia's four year colleges and universities and community colleges will be utilized.

The HCDC will improve quality of life directly by increasing investment in human capital and indirectly by increasing the productivity of the labor and managerial forces thereby increasing the value of labor and wages. The committee will identify and coordinate relevant aspects of existing human capital programs as well as initiate new programs designed to promote the objectives of the RVDF, particularly efforts to promote entrepreneurial identification and training.

This committee will coordinate managerial and manpower training programs that improve efficiency and productivity in the private sector and promote capacity building development of local governments. Systematic efforts will be undertaken to upgrade the quality of human capital by targeting training programs toward the emerging needs of local governments, business, and industry. A program of entrepreneural identification will be undertaken in conjunction with colleges of agriculture and programs of human resource development, business administration, engineering, public administration, and planning.

Objective 3: Role of the Resources Coordinating Committee

The Resources Coordinating Committee (RCC) will be responsible for the third objective. The Committee will identify emerging needs and technological changes that generate products and services which can be produced by rural enterprises. The RCC will maintain close coordination with the Virginia Rural Development and Capacity Building Council, state agencies, local governments, planning district commissions, the Agribusiness Council. state and local chambers of commerce, and other private organizations and groups.

The RCC will be aided by *ad hoc* task forces designed to identify problems, develop alternative approaches to their solution, and generally serve in a "think-tank" capacity to deal with the emerging needs of rural communities. Members of the "think-tanks" will be individuals who are, through experience, academic training, or self-study, committed to examining creative, new approaches to economic change, community development and improved quality of life. The RCC will direct the "think-tanks" in such a manner that they support related efforts of the RVDF.

The RCC will draw on volunteer groups and private agencies to gain insight into new approaches to problem-solving that are based on grass-roots involvement. Extension programs, community colleges and other educational institutions may provide useful and practical applications of knowledge. Emerging technology for new rural business and industry can be identified and production schemes established. This economic-educational linkage will serve to enhance the economic and social interests of rural areas.

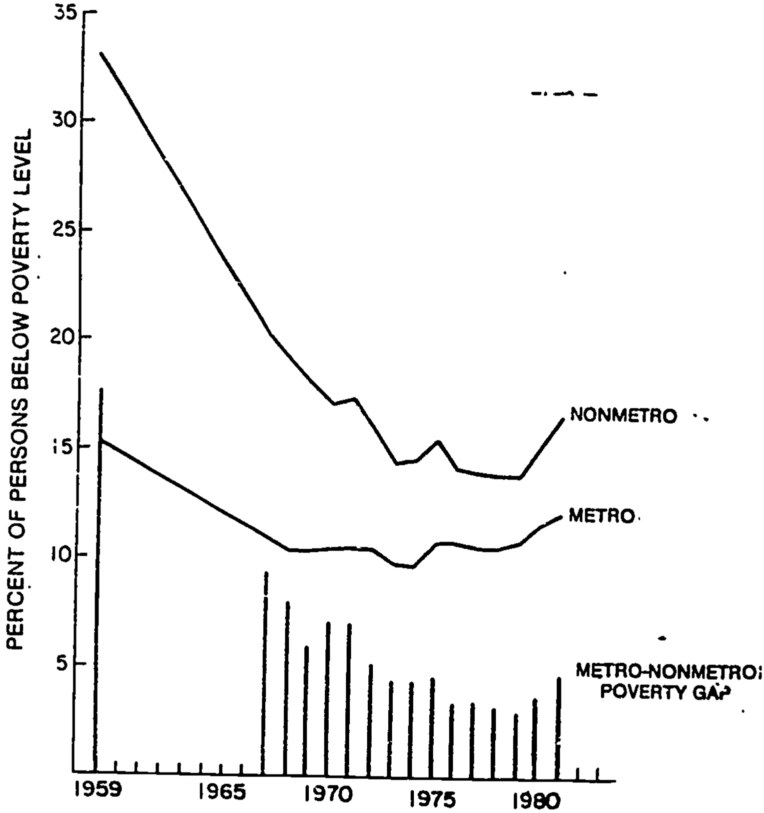
The RCC will function as a collector, disseminater, and medium for information and ideas. The committee will collect, evaluate, project and disseminate information through its task forces. These task forces, in turn, will attempt to systematically obtain information on pilot projects and experimental efforts that may prove successful in rural Virginia. As the RVDF's extension arm, the RCC will disseminate information relating to enterprise and human development. And finally, it will serve as a medium for transmitting ideas and information which should be shared with various agencies of federal, state, and local governments. The intent is to give life and energy to innovative ideas and apply knowledge gained from experimental efforts.

CONCLUDING OBSERVATIONS

A distinctive aspect of rural development is its targeted focus on the particular needs of rural people, their communities, and their specific socio-economic circumstances. In these concluding thoughts, I want to call attention to the need for targeting economic objectives to improve life quality for the economically disadvantaged and to address the hard-core economic problems of rural areas, particularly in view of the recent increases in poverty being revealed (Southern Regional Council, North Central Regional Center for Rural Development). After years of convergence in poverty rates between metro and non-metro areas, the recent divergent trends threaten to become more accentuated (Figure 1).

The intensive human capital skills that are emerging as principal requirements of the economy may further hamper the ability of the poor to fully participate in and benefit from economic changes. Designing policy strategies that increase their chances of improvement <u>will</u> require concerted state and local initiatives with federal support for equalization of opportunities. This section will

Figure 1
METRO-NONMETRO POVERTY INCIDENCE
SELECTED YEARS, 1959-81.



Source: Weber and Deaton

briefly outline four strategies that may be useful to state and local government initiatives as a basis for promoting quality economic development. Hopefully, appropriate federal support for the strategies will be sustained as well.

1. Develop a high-quality educational system at all levels.

The most fundamental incentive for quality economic development is a state's educational quality. The federal responsibility in this area must be maintained and even strengthened. A strong public education system is the touchstone of our democratic tradition, in my opinion. The direct effects of a more productive, motivated labor force are less important than the longer term benefits of producing quality decisionmakers. In a democratic society, knowledge is used to choose and discriminate among economic alternatives and to build social institutions that support productive enterprise. The state's educational system should address lifelong educational needs through both formal and informal approaches. This aspect of social and economic development undergirds the remaining three points discussed below.

2. Use scientific knowledge to build on the state's comparative advantage.

Rather that blindly pursuing some vaguely defined notion of "high-tech" industrial growth, state governments should promote application of the most advanced scientific knowledge within those industries that currently represent a significant part of the state's economy. Developing creative partnerships between state government, universities and the private sector is an important component of this strategy in order to insure that existing knowledge is successfully extended and applied and that new knowledge is generated in response to social needs. New institutional arrangements may be necessary to effectively bring this about.

State governments should recognize that a comparative advantage is usually held by those industries which currently play major roles in their states' economies. Also, scientific developments are occurring across a broad range of conceptual fields. Many of these hold significant implications for even the most traditional industries in the state.

Small prototye plants established around scientifically-based, experimental designs have the potential of rapid growth and/or widespread application in existing industry. Scientific knowledge is essential to upgrade technologies in such sectors as agriculture, chemical processing, forest products, and textile and fabrics in order to preserve their competitiveness under international economic pressures. During the interim, state support in the form of low-interest loans and/or direct equity investments may be justified.

This process of scientific application should not be limited to the natural and physical sciences. Social science contributions may be even more significant for promoting economic efficiency and avoiding high social costs. Social science disciplines create new knowledge of management-worker relationships, productivity, community-industry interaction, family functioning, and institution-building -- all of which may play vital roles in stimulating industrial productivity and creating a favorable environment for quality economic growth. Social science analyses have been conducted to determine impacts of economic change. Such applications help avoid undesirable economic alternatives and support sound growth objectives.

3. <u>Create a venture capital capability that will target specific regions and sectors of the state's economy.</u>

Venture capital is an American success story. The high rate of economic viability among businesses supported by venture capital and the financial returns to equity owners in venture capital firms attest to this success. The ability of venture capital firms to provide a unique mix of capital needs and management expertise to new and existing firms, often associated with innovative entrepreneurial efforts appears to be the secret. Venture capital and entrepreneurial support programs can revitalize the economy by promoting more widespread ownership of equity capital.

State governments are in a position to develop creative public-private sector partnerships to meet this need. In addition, the involvement of state governments provides an opportunity to guide the efforts of such firms towards the hard-core areas of the economy where chronic unemployment and persistent poverty continue to impede progress toward a quality society.

The evidence seems clear that the spirit of entrepreneurship is sufficient to support significant growth in small business in most states. Public efforts may be needed, however, to identify these entrepreneurs and to develop and provide programs of training, product development, and related business support. Land grant colleges and universities should be major actors in this process. The example discussed above of the Rural Virginia Development Foundation is illustrative of the potential in this area.

4. New institutional/administrative designs are needed to coordinate the interrelated functions of capital investment, applications of scientific knowledge, and development of human capital.

Coordination among levels of government and between public and private sectors has been emphasized. New forms of administrative efforts and institutional design must be continually developed, monitored, and evaluated. A spirit of experimental innovation should be promoted, not in a frivolous waste of always scarce resources, but in an attempt to discover new social designs that effectively address seemingly intractible economic and social problems.

Conflicts over basic constitutional matters are likely to arise. We have seen the beginning of such issues in Florida, North Carolina and Virginia as the question is debated of the appropriateness of state and local government participation as equity owners in state-directed investment funds. These constitutional issues strike at the basic foundations by which society continually reshapes its economy. The judicial system is likely to play an even more visible role in future state economic development efforts.

Table 4

Estimated percentage distribution of farm operators and their assets, debt, and off-farm income, by size of farm, January 1, 1984

Size of farm Annual value of farm products sold (thousands of dollars)	Operators	Assets	Debt	Off-farm income
All farms.......	100	100	100	100
500 and over....	1	10	18	2
200 to 499......	3	13	18	3
100 to 199......	7	16	21	5
40 to 99........	16	22	22	10
20 to 39........	11	10	7	9
10 to 19........	12	8	5	12
5 to 9..........	13	6	3	16
2.5 to 4.9......	14	6	2	16
Under 2.5.......	23	8	4	27

Operators, assets, and debt are as of January 1, 1984, estimated as described in the note to Table 3.
Off-farm income data are USDA estimates for 1983, from ERS ECIFS 3-3, p. 89.

Source: Melichar

Table 9

Estimated percentage distribution of operators and their debt and assets on farms with annual sales from $40,000 to $499,999, by relative debt level and size groups, January 1, 1984

Size of farm Annual value of farm products sold (thousands of dollars)	Ratio of farm operator debt to assets (percent)			
	Little or no debt (0-10)	Moderate debt (11-40)	Heavy debt (41 and over)	Total
All farms in this group:	Percentage of total			
Operators	32	35	33	100
Assets	36	38	27	100
Debt	4	32	64	100
	Operators, percentage of total in size class			
Large (200 to 499)	22	35	43	100
Mid-sized (100 to 199)	26	38	36	100
Small (40 to 99)	38	33	30	100
	Operators, percentage of total in debt class			
Large (200 to 499)	8	13	16	13
Mid-sized (100 to 199)	22	31	30	28
Small (40 to 99)	69	56	54	60
	100	100	100	100

See note to Table 3.

Source: Melichar

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Senator ABDNOR. Well, thank you, Mr. Deaton. I'm extremely pleased to tell the panel that Senator D'Amato, a member of the Joint Economic Committee from New York, has been a very active participant in our program. He has just arrived and let me tell you, Senator, this is an excellent panel.

I took advantage of South Dakota. Senator D'Amato was out at Rapid City with me last summer and even tried trout fishing, John.

Mr. Howard is in the packing plant business in Rapid City and relies heavily, of course, on agriculture.

Mr. Cope comes from the other corner of the State, the southeast, and is in the manufacturing business and has been for a number of years. He has pointed out very vividly that up to a couple of years ago 25 percent of his business was in the export market. The export market has deteriorated; and this has had a great devastating effect on his business.

Mr. Tweeten and Mr. Deaton—one is from Oklahoma State and the other is from VPI—have been before us before, with fine results. We have had some great information today from a cross-section and I'm really happy they are here.

Senator D'AMATO. Well, Mr. Chairman, you have taken a great leadership role in attempting to focus on rural America and the problems. Of course, as Mr. Tweeten has pointed out agriculture is New York State's No. 1 industry. I guess most Americans just don't realize that; 440,000 people are employed directly or indirectly in agricultural activities in New York.

The beauty of your State is obviously enhanced as a result of the great economic strength that the agricultural agribusiness brings to it. Of course, the problems are complex, manifold, and I certainly compliment you and thank the members of the panel for giving testimony today. I have not had an opportunity to be here to hear all of it, but, certainly, my staff will be reviewing it.

Mr. Cope, as you have indicated, it is very frustrating to have lost a substantial part of your business as a result of the exports drying up.

Added to that, in my State, and I would imagine in your State, we suffer a loss of market from those who dump agricultural products into our traditional marketplaces right here in the country. Our local farmers cannot compete. The Canadians deny any dumping activity. But I don't know how you can continue to plow up more acres—and that's what they're doing in Canada—for vegetable crops, selling their potatoes, I think, at $4.00 a hundredweight, and they're only losing a dollar a hundredweight.

Now how could you do that? And why would you be doing it more and more? Of course, it's knocking our farmers right out of business.

I saw you grabbing your microphone, so you have probably had a similar experience.

Mr. HOWARD. We were talking earlier about the packing industry. The hogs are brought in from Canada into South Dakota, and strictly because of the currency values, the Canadians are able to sell and make a good profit at a price that the domestic South Dakota producers are unable to match, so the producer is unable to compete.

Senator ABDNOR. I can add to that. We penned a recent budget resolution, but it just makes assumptions. It doesn't mean the Agriculture Committee has to follow the overall dollar figure. but it was pretty well set out. Anyway, I guess it has to be because there are no dollars in the budget for it. It isn't necessary. As you know, we have huge holdings in grain in the CCC. Something like 8 or 9 billion or more. The discrepancy in our dollar, and in many cases in Europe, direct subsidies are knocking things out of the export market.

The administration has agreed to put between $2.5 billion and $4 billion in to what you might call an export pick.

Now how that is going to go over, I don't know, but I got into quite a conversation a few days ago with Cargill, who didn't agree with me, but we temporarily, at least, took back the wheat flour business from France that had taken over that business from Egypt. On this one sale, almost a year's supply, the Trade Ambassador at that time, Mr. Brock, told me just to watch. He wouldn't tell me what was happening, but as soon as it was announced that we had made the sale, we supplemented the two companies that made the sale with almost free grain, if you want to call it that, out of the CCC.

It doesn't make for good relations between countries, and I suppose the State Department frowned on it, but the heck with the State Department——

Senator D'AMATO. Oh, I agree with you there, Mr. Chairman.

Senator ABDNOR. I don't know what we could do for your type of equipment in the PIK program, but that is the kind of thing we are going to have to do to get the dollar down. Hopefully, we did something last week that might be the first step. You said we ought to have a $50 billion cut over 4 years. We have done a little better than that over 3, but that's as far as we've gone, and the 1986, 1987, 1988 budget proposal which comes close to $297 billion. The House and Senate will probably get together on something. They're talking that figure in the House.

Whatever we come out with, I hope it is going to take care of one of our problems, but we will try to get the financial markets in line, so we can have some decent interest rates and maybe in time the dollar will come down.

They tell me, Jim, the problem is that if the dollar drops too fast, we would lose all the dollars that have been brought into the country to finance our deficit in Government. Believe that or not.

Mr. COPE. Senator, where are they going to go? Where are they going to go in the volume of money that we're talking about? There isn't any place else in the world for them to go.

Senator ABDNOR. You've got one guy completely on your side.

Senator D'AMATO. Mr. Chairman, I agree with Mr. Cope. I think we pay too much attention to this business about driving the dollars away, because where are they going to go? Are they going to invest in Russia—in the Soviet Union? What free marketplace can give them the guarantee that we continue to?

Mr. COPE. Senator, I think that what we fail to see, without looking at the motivation of why these foreigners are investing in this country, is the things we take for granted—the stability, the safety of the investment and the question, to my mind, at least, is very simple. Where else can they go? Sure, some dollars will leave.

Senator D'AMATO. Mr. Chairman, I have an opening statement I would like to enter into the record.

Senator ABDNOR. Fine. Without objection, it will be made a part of the record at this point.

[The written opening statement of Senator D'Amato follows:]

WRITTEN OPENING STATEMENT OF HON. ALFONSE M. D'AMATO

MR. CHAIRMAN, I THANK YOU FOR CONDUCTING THIS TIMELY HEARING. AS YOU KNOW, RURAL AMERICA IS IN TROUBLE. ALTHOUGH MANY URBAN AREAS HAVE SUCCEEDED IN COMING OUT OF THE RECESSION OF THE LATE 1970s AND EARLY 1980s, RURAL AMERICA HAS NOT BEEN AS FORTUNATE. OPPORTUNITIES IN FARM COMMUNITIES HAVE DWINDLED AS FARMING HAS BECOME MORE MECHANIZED AND THE NEED FOR MANPOWER HAS DECREASED. NOT FINDING EMPLOYMENT IN THEIR LOCAL COMMUNITIES, THESE MEN AND WOMEN TURN TO THE URBAN AREAS FOR EMPLOYMENT OPPORTUNITIES.

RECENT STATISTICS INDICATE THAT, OVER THE PAST FIFTY YEARS, THERE HAS BEEN A DRASTIC CHANGE IN DEMOGRAHPICS IN THE UNITED STATES. DURING THE 1930'S, NEARLY 25% OF ALL AMERICANS LIVED ON FARMS. TODAY, LESS THAN 3% OF AMERICANS LIVE IN FARMING COMMUNITIES. THESE FACTORS, COUPLED WITH THE FINANCIAL DIFFICULTIES THAT MANY OF OUR NATION'S FARMERS ARE CURRENTLY FACING, PAINT A VERY BLEAK FUTURE FOR RURAL AMERICA.

WE CAN TURN THINGS AROUND, HOWEVER. THE SENATE HAS FINALLY ACTED ON THE 1986 BUDGET. HOPEFULLY, THE HOUSE WILL ACT EXPEDITIOUSLY SO THAT WE WILL REDUCE THE DEFICIT BY AT LEAST $55 BILLION WHILE MAINTAINING WORTHWHILE PROGRAMS, SUCH AS THE FARMERS HOME ADMINISTRATION, THAT HELP PROMOTE ECONOMIC DEVELOPMENT IN RURAL COMMUNITIES. WE CANNOT STOP NOW -- WE NEED TO KEEP OUR ECONOMY, BOTH URBAN AND RURAL, STRONG.

THANK YOU, MR. CHAIRMAN.

Senator D'AMATO. Doctor, you were going to say something?

Mr. TWEETEN. Well, I'd like to say something about the overvalued dollar.

An economist by the name of Bergsten recently estimated the dollar is overvalued 40 percent, and a number of the major econometric models show a similar figure.

Senator D'AMATO. Forty percent?

Mr. TWEETEN. Forty percent. That means, basically, that agricultural exports and other exports are taxed 40 percent and imports are subsidized 40 percent. Our farmers find it difficult competing on that basis.

Now as to the safe haven, I would object very strongly. I think the United States now is one of the most unsafe places in the whole world to put your money, because with that overvalued dollar, investors could lose trillions of dollars very quickly.

Senator D'AMATO. Wait, wait, wait. Admittedly, economics was not my strong suit in college, and some would say it is still not my strong point the way I have managed my portfolio over the years, but how do you arrive at the fact that it is not a safe place?

Mr. TWEETEN. Because the dollar, as I say, according to a number of estimates, is overvalued by 40 percent. But may be an overshoot when the correction is made to a lower value of the dollar.

Senator D'AMATO. In other words, you're saying the dollar will drop.

Mr. TWEETEN. There are 3 trillion American dollars invested by foreigners in Eurodollars and in the United States. That could drop by 50 percent, and a $1.5 trillion loss is not a small amount.

Senator D'AMATO. Wait, wait. You're making it jump, Doctor. You have to take it easy with me. How are you going to lose $1.5 trillion?

Mr. TWEETEN. By a drop in the value of the dollar by 50 percent. I am not saying when it is going to happen.

Senator D'AMATO. Well, let's say that over a period of time the dollar begins to drop in value. OK. But now you're saying someone is going to lose a lot of money if that happens.

Mr. TWEETEN. Yes; they could lose $1.5 trillion, or they could get very wealthy, if they would just switch to the mark or yen or gold or diamonds or almost any currency other than the dollar.

Senator D'AMATO. But you're not really suggesting that everybody has it in the dollar market? The daily transactions of the value of the yen and the dollar, et cetera. Most of that $1 trillion is invested in what? Short term? Long-term obligations? Others?

So you could not accomplish that kind of switch, where you have that.

Mr. TWEETEN. Once the value of the dollar begins to fall, there may be panic. That's why the value of the dollar could fall much further than economic considerations alone would suggest that it ought to fall.

The way to get a softer landing and an orderly adjustment out of the dollar is to make macroeconomic corrections immediately. The Federal Government needs to demonstrate that it has control over the budget and set up a credible program to move toward a balanced budget in. I would say, 4 years. Then we'll get less chance of panic.

I would say right now the dollar is a highly risky currency for investment by foreigners.

Mr. COPE. You are talking about a risk based on the probability that it may decline somewhat in value. The kind of risk I was talking about earlier is the risk of total loss.

Mr. TWEETEN. Is the German mark in danger of collapsing? Is the Japanese yen in danger of collapsing? Is gold in danger of collapsing? Diamonds?

Mr. COPE. Let's talk about gold. The price of gold went from $800 to around——

Mr. TWEETEN. The same thing could happen to the dollar, but when the dollar begins to fall, gold will go up, so you want to convert dollars into gold.

Senator D'AMATO. Wait; wait; let me ask you something. Are you really suggesting, for example, that the deutsche mark is sounder than the American dollar?

Mr. TWEETEN. If I were putting my money into a currency for the next 5 years, I would put it in the mark rather than the dollar.

Senator D'AMATO. But people are not buying currency, Doctor. You are assuming that people are speculating in currency, and they're not.

Mr. TWEETEN. People are buying stocks, bonds, Treasury bills, and farmland.

Senator D'AMATO. Let me just suggest something else. Talking about the Japanese yen, who is running a bigger deficit based on the GNP and all the other indicators? The Japanese or the Americans?

Mr. TWEETEN. That's not the only consideration. The Japanese deficit is not as serious because their saving rate and the productivity gains are much higher.

Senator D'AMATO. Well, you know, I want to suggest to you that their productivity is because we are running a trade policy based upon national security and convenience. The bureaucrats at the State Department have become aficionados and have become absolute propagandists, in certain cases, for lots of the countries in the desk that they man, have forgotten America.

Believe me I am not suggesting that we didn't need healthy competition, but we have moved to correct old antiquated industries and production practices, and excessive demands in terms of wages and fringe benefits, et cetera. Notwithstanding everything we do, you can't compete.

I have manufacturers who have modernized and still say they can't compete with an economy where somebody is paid 35 cents an hour. My farmers can't compete against the subsidization of crops, et cetera, by the French and the Canadians, and others. They just can't do it. So I think we'd better recognize that there are some problems there as well.

This free trade business, closing our eyes to the foreign governments and their practices in their industries, we just can't make it. I don't think I am a protectionist, but I'll tell you this: I will probably be voting for a lot of protectionist measures unless I see some changes. The Japanese come in and say, "Oh, we're going to let you sell into our telecommunications industry." What percentage? The whole industry is only $4.5 billion, so maybe they'll let us sell 20 percent, and we're supposed to say "wonderful," because we have now brought home a contract for $800 million or $1 billion?

It doesn't satisfy this senator, and I don't see us addressing that. But Mr. Chairman, I have never seen such a spirited panel.

Senator ABDNOR. Let me bring in another man. Mr. Deaton, you have been sitting there. You must have some thoughts on this.

Mr. DEATON. Well, I must say, Mr. Tweeten's comments took me a little bit by surprise by saying the United States is maybe one of the more vulnerable economies of the world in terms of investment. I would take a different implication of the amount of foreign investment coming into the United States. If we assume that the world capital markets are working fairly well—and we must assume that the United States looks fairly attractive to a lot of investors around the world—I think that we cannot overemphasize the importance that foreign investments hold for rural economies in this country.

My impression is that it may be particularly accentuated in the South, where some States, such as South Carolina, their major manufacturing investments over the last 5 to 10 years have been foreign capital investments. Throughout the South, the foreign sector is becoming increasingly important, and I believe this holds significant implications for the way we design our own educational system to take advantage of the direction that our national economy is moving in.

Specifically, I think, in addition to the increased technical education that deals with this "high tech world", we've got to place emphasis on language training at the primary and secondary level of education and on, of course, international relations and on a more broadbased liberal arts view that is integrated with our technical educational system.

And I think this could do more to help alleviate some of our real hardcore problems of poverty that we have been dealing with so long, because even when we go to the most rural areas of the country, small country banks are dealing intimately with the world economy. It takes a level of sophistication to participate in that, that a full system should be providing. And I believe this is a case where some leadership at the national level could be very effective in elevating the extent to which these rural areas can participate in that rural economy, because it is an economy that is more complex. And, as I indicated earlier, more information based, in a sense.

Senator ABDNOR. Well, before we get off the subject, let me ask Mr. Howard about the practical side of running a business. How does it look to you on this subject of the dollar?

Mr. HOWARD. Well, Senator, as far as the value of the dollar with respect directly to our company, we are competing directly against foreign imports. An example that I was talking about earlier this morning was just last week, we were trying to sell 90 percent beef trim. Commodity is the proper terminology for it, and we were trying to sell it into Chicago for $1.06 a pound.

The imports—90 percent beef trim imported into Chicago and delivered in Chicago is 99 cents at the same time. Now when you are dealing in a product where a whole industry is trying to make 1 percent of profit on gross sales, you can see that you're being beat by 7 cents a pound. There's no way you can come close to that.

Senator ABDNOR. They're probably making more money on that sale than you would have if you had gotten it.

Mr. HOWARD. Well, if you go back to Mr. Tweeten's analogy of a 40-percent difference in the money value, why, they do quite well, even at a comparable cost. And it makes it not only difficult but impossible to be competitive against a situation like this.

And if you look where the import quotas are based on 10 percent of domestic production and we're now producing, in my opinion, an abundance of beef in our own country, then we also in turn are increasing the import quotas at the same time. And it simply compounds the problem.

Senator ABDNOR. Well, I have just got to add one thing. We were talking about hogs a moment ago. It's true, there's the difference in the dollar, but I think I'm correct in saying that the committee has subsidized by $12 on that before it crosses the border, which is a pretty computation when you add it to the 40-percent factor. That's a rough piece of competition.

Mr. Tweeten, you were going to say something.

Mr. TWEETEN. One of the problems with irresponsible fiscal policy is that it encourages protectionism. That's exactly the kind of sentiment that we heard expressed here today. Now, as for the stability of the dollar, our financial markets worldwide are probably some of the most efficient markets in the whole world. So we can't say there's a disequilibrium today in those markets.

So why do I say the dollar is overvalued?

The reason is that our dollar is sustained by high real interest rates. High real interest rates in turn are sustained by the huge Federal deficit. Thus Federal funds account for our trade deficit.

Neither one of those deficits can be sustained. If we sustain the current Federal deficit, after many years the whole GNP would go for interest on the debt. If we sustain our current trade deficit, in many years, the rest of the world would own the United States. We can't go on this way. We're in a long-term disequilibrium situation. That's why I say it's uncertainty in that things could turn around at any time because we can't continue this way.

Mr. COPE. Mr. Chairman, I would just like to make one comment on the remark Mr. Tweeten made earlier. He brings together what seems to be so much economic theory and some experience in the real world. I would like to ask how he proposes in the real world that $3 trillion, you say, is money going into Germany overnight?

Mr. TWEETEN. Well, it doesn't need to all go. All you need is a switch of a few billion dollars and major turnarounds will occur. When the dollar begins to fall and you're holding some of that $3 trillion, you don't want to be the last one out the door.

Mr. COPE. If you don't want to be the last and you don't want to be the first, what's the difference whether you are talking dollars or gold, steel conveyors, concrete pumps?

Mr. TWEETEN. A few years ago, gold was overvalued and the dollar was undervalued. The situation is the opposite today. And, as you know, you want to work countercyclically when you are managing your financial assets.

Senator ABDNOR. Gentlemen, I'm going to get off that subject. Our time is running out and I do want to get into some other points that have been brought out in our hearing.

I want to jump right into the one both you and Mr. Deaton spoke to—education. Let me tell you how it is in South Dakota. There's no state that has more colleges per capita than South Dakota.

Isn't that a correct statement, Jim?

Mr. COPE. Correct.

Senator ABDNOR. We have two fine engineering schools that give a doctor's degree. We have a number of universities that specialize in medicine. In addition, we now have three State schools that go along with that. In Mr. Cope's town, 6 months ago, there were two colleges; now they are down to one. The School of Mines is where Mr. Howard is from—one of the fine engineering schools.

We have some vocational schools now that are helping us with industry. It isn't that we aren't putting dollars into education. In some areas because of the poverty level or income level it may be difficult to go to school. Not so in South Dakota. I dare say that any youngster who wants to go to college in South Dakota, with the prices we charge, with student loans and student assistance, can do so. There's no one that couldn't be in college.

Do you suppose that's true? I mean, as far as education is concerned? I can hardly name a young person who couldn't go to college today.

Mr. HOWARD. I would say, an extremely small percentage would not be able to figure out a way if they wanted to.

Senator ABDNOR. Well, maybe we're not using it properly. I'm not saying that is necessarily so. Our vocational schools have supplied our needs and are now helping immensely in training people for small business that are moving in.

What I really want to talk about is the underemployment. That's been a favorite subject of some of us on this committee for quite a while. As a matter of fact, I was hoping Senator D'Amato could have stayed around, too, because that was one of our big arguments on the floor. And just as you say, there's no reporting data. We had that very subject brought up by Janet Norwood, the Commissioner of Labor Statistics, who reports to us every month. Nothing in the figures reflect on rural America. She admitted that.

So you're right. I have made the point several times on the floor that our people in the cities who are getting unemployment compensation are making more money than my people in business and those working on tractors every day. They are losing money and are lucky to break even.

But there is no actual report. How do we go about getting this? Is that going to be a difficult job?

Mr. TWEETEN. I would begin with census data because those are the most complete. It's also possible that by augmenting the Current Population Survey, which is used to collect national data on unemployment, with additional questions, it would be possible to estimate underemployment.

The approach using census data is to examine earnings, education, age level, and other factors that influence personal earnings. You relate characteristics of the individual to earnings and then, based on a national standard of what individuals of like education, age, and experience would be earning, you can measure to what extent people in any rural county are earning less than that.

To do a satisfactory job of measuring real earnings, you need to measure cost of living. We don't have those data either.

Senator ABDNOR. Do you think we could put something together that——

Mr. TWEETEN. Yes; it's been done but not adequately. Until the U.S. Department of Labor departs from its urban bias and puts some resources into rural statistics, we're not going to make progress.

The onlv other alternative that I know of is to give that job of collecting data to the U.S. Department of Agriculture, which is more responsive to the need for data in the rural areas.

Senator ABDNOR. Do you have any thoughts on that, Mr. Deaton?

Mr. DEATON. I am familiar with some of the views Mr. Tweeten has expressed, and I tend to agree with the need for a hard look at the data sources that we now have in trying to make them more adequate.

Senator ABDNOR. I am sure the two gentlemen from South Dakota will agrce about the underemployment.

Mr. COPE. I would agree that the Department of Labor has a very strong urban bias.

Senator ABDNOR. Let me tell you how I feel about that right now.

The new Secretary, Mr. Brock, I know is smoothing out relations—Federal relations—with the labor unions, and I guess that was needed out there. I worked a lot with Secretary Brock, particularly since he has been a trade ambassador.

In all the walks of life in which he has participated, from politics to the Senate seat and other places he has been in, I think he has shown an appreciation for rural America because he has been included in a lot of problems similar to those in South Dakota.

We have had him in the office many times, and I am hoping the staff, maybe the next time around, will try to arrange a meeting with both Secretary Block and Secretary Brock This has been done before on state matters. Maybe we can get some additional information because it is really needed. They just don't understand the situation around here.

Mr. COPE. Mr. Chairman—I hate to interrupt the chairman, which is not really wise, but I would like to just comment on the statement you made a moment ago that the new Secretary of Labor is now working with labor unions.

I would like to point out to you that unionized labor represents about a fifth of the total employment in the United States. It has been a case of the tail wagging the dog far too long, and it really would be best if we could get this to be a department of all labor instead of a department of unionized labor.

Senator ABDNOR. Your point is well taken. I have confidence in Mr. Brock personally and he has always seemed to me on most issues to be a very fair-minded individual, and I think he would know well how to blend the whole thing together.

Now, I may be wrong, but I think that it will work out that way. I believe he will have a concern for rural America because it is a very important part of our country.

As I said earlier, I got involved when they brought out that billion dollar labor bill, the jobs bill, a year and a half ago and wanted more but settled on a billion. It was meant for 12 states with big unemployment, and that is all. Well, gradually they were going to include 18 or something, but we finally won and had some other factors included in that bill. That shows up in many of our formulas.

We are hoping to get away from some of those grant programs, everything from UDAG on, EDA and all of those. So it is not only hurting us from the general picture but also, if they are going to spend government dollars, they certainly ought to look at some of the more rural areas.

We have got two fellows with their hands up. Let me take Mr. Howard first.

Mr. HOWARD. I was going to suggest that we may not be able to get the statistics today, but possibly we could talk about some things that even if we don't have the statistics, all of us in this room could probably make an estimate right now of what we think they are in underemployment, unemployment, this type of thing.

I think we all are on the same wavelength with respect to what really is happening in rural America, realistically, if we make the assumption of underemployment and unemployment that we really believe there is and what we could do about it. There are some areas here that are very difficult to solve, and those problems will still exist even after we have the actual statistics.

Senator ABDNOR. That is exactly right. There would be a little better basis if the government focused on some of the proposals that have been mentioned today. You make an excellent point.

Before we get off of this, Mr. Tweeten.

Mr. TWEETEN. I just want to add one more comment about unemployment.

In 1980, $16 million of Federal funds were allocated on the basis of unemployment. It is probably less today. I don't have the figure.

There was a survey of persons in Gadsden County, FL in the 1970's using the same unemployment survey instrument as is used by the Department of Labor for measuring metropolitan unemployment. But the Department of Labor uses a crude "handbook" method to estimate the unemployment rate in the rural counties. Researchers applying this instrument, used at the national level for metropolitan areas, to a rural county of Florida found that unemployment as estimated by the Federal Government was underestimated by about half. A recent study was done in Iowa with the same kind of technique and with the same kind of findings.

So even if we use published unemployment data, which is a wrong concept, there will be a bias against rural areas.

Senator ABDNOR. Well, I hope we will pursue this, and I hope to fall back on some of your thoughts as we get into it.

But let me take a minute to ask: What do we have to do to improve the situation and the job possibilities in rural America and business? That touches on problems today.

I think Mr. Deaton said that two-thirds of farm income comes from off-farm employment. Is that right?

Mr. DEATON. Yes, sir.

Senator ABDNOR. That includes a lot of small farms out where we come from. With the kind of operation they have, they must keep their noses to the grindstone on farming. But we have to do something.

Now, you two fellows, with what you see in South Dakota today, what are the big things?

I am trying to put together some facts and figures and materials and research to help revitalize rural America.

Where should we hit, John? I really feel like I am trying to grasp at everything and getting nothing.

Mr. HOWARD. I don't know if I have the exact answer to your question. If I did, I would probably be out on the street selling my wares and making millions. But to make a try at answering at least from the vantagepoint I have, realistically, agriculture and rural America is tied extremely close together, and if we look at the production of agriculture today to be in excess of domestic consumption, we are talking about—like Mr. Deaton said—about changing from tobacco to some other agricultural commodity, and it increases the competition in that particular commodity that we switch to, whether South Dakota or wherever it would be.

We continually increase our efficiency without increasing our market. For instance, how do I get a bigger market share if I switch from soybeans to some other commodity. and you are still in a commodity that is overproduced for the amount of customers that you have, the amount of consumers you have? Then you really haven't gained anything.

So what do we need to do? We need fewer people producing the product so the price then comes up to a reasonable level that you can make a living at, or you need more consumers for the product.

This is a supply and demand type situation, and you can subsidize it by throwing Federal dollars at it or whatever. But what it still comes down to is if you produce more than the consumer wants to spend money for at that particular price level, you are going to have product left over And if you do, then the price drops below what you can afford to produce it for.

So you have to go out and find more customers for it at that particular production level or drop the production back to where the people are willing to spend more money for the commodity.

Senator ABDNOR. You find you can produce it, but outside competition may be coming in from other countries. That's a problem.

Mr. HOWARD. That is only one factor.

Senator ABDNOR. That is only one situation.

Take your hog business again. Coming from Canada, they start out with about a $12 advantage on the subsidy that we don't give our hog people. They have got the advantage of the dollar, and as you read in the paper last week, our Government put a quarantine on hogs coming into South Dakota because some of these Canadian hogs are coming in using an additive—I forgot what it was—but we don't allow it in this country. Our producers can't use it, but they do, and I don't know what is happening about that. It has caused quite an uproar here in Washington.

Those kind of factors—free trade is great, but we are going to have to get together with GATT to straighten out some of these issues.

Mr. Tweeten.

Mr. TWEETEN. Well, we really don't need to talk much about subsidies at this point because even the European Community now doesn't need to subsidize their wheat in order to undersell us. We no longer have a comparative advantage in the basic farm commodities that we have been exporting. We can't afford to export on a long-term basis on the current terms because farmers in many areas are not covering nonland costs of production.

So we have to get the value of the dollar down. We cannot compete with the value of the dollar at such a high level.

Senator ABDNOR. And of course you have got to remember we don't subsidize those foreign sales. The European Common Community pays a pretty hefty subsidy for the portion consumed within their countries, so they can afford to sell for a lot less.

Mr. TWEETEN. That is correct, and the Japanese also. I was over in Japan about 1 year ago, and Japanese consumers were paying 22 percent of their income for food, and their per-capita income was not much below ours. Our consumers are paying 14 to 15 percent. The Japanese are paying a high price for their protectionism. They really should be the first to be removing their barriers because it is in their self-interest to do so.

And I don't see any purpose in our erecting barriers in return. Just because they have shot themselves in the foot is no reason we should do the same.

Senator ABDNOR. Well, I could really get into a long discussion about it, but let me get off on another subject here.

We ought to attract business to places like South Dakota and other places. Probably no business is growing any faster than the defense.

I was up to the dedication of a new plant going in to Aberdeen a while back, FMC, and they are going to put a small business out there on a military contract they received. I forget what it was, but I made a comment there that I am a strong defense man. My voting record pretty well shows that.

It is really good to think I might have somebody to work for in South Dakota who might benefit from a defense contract. I think there is a movement afoot now, because of the scandals and fraud we have experienced, that maybe it is going to get more competitive.

Do you think there is much of a future for one of our plants?

A guy like you, Jim. Did you ever see yourself taking part in some of that if the opportunity presented itself?

Mr. COPE. Senator, we have looked at over the years the "defense" market as a very, very cyclical sort of business. When it is great, it is great, and when it is bad, it is terrible.

For a small company to commit a major portion of its activities to the defense business, as uncertain as it is for a small supplier, is very difficult. So as a result, we try to quote equipment to the Defense Department wherever it comes close to fitting our standard process. But for a small company to aggressively go after the defense market is very difficult and, in my judgment, dangerous.

Somebody like FMC that has a great deal of diversity and has been in the business for a long time can do very well producing some of that equipment in a State like South Dakota because we have got good, productive people. I don't know how you solve that problem of a small company having to risk so much of its capital and resources on a cyclical business.

I think I am being somewhat of a gambler when I go after construction, and that is a more basic and more predictable business than a lot of the defense business is.

Senator ABDNOR. You really make a good point. In the case of FMC, actually they can absorb a drop in business in a small plant.

Mr. COPE. The point I think I am making with FMC is they have a number of plants in a number of areas, and if the product making in Aberdeen closes down they can transfer another product out there and take up some of the slack, where if I gear up to produce a product for the Defense Department, apparently we are talking a big dollar contract and you have to have a lot of employees, and when you run to the end of the contract and there is nothing there we are in serious trouble.

Mr. HOWARD. The only thing that might tie on to that line that I would relate to is we bid on Government school lunch contracts, ground meats for the Government, which is a commodity of course, probably 25 packers in the United States that bid on these particular contracts, and you bid on the contract on an FOB type situation, that you price the commodity delivered in whatever area the Government wants it.

I think the same thing would probably hold true with the defense type situation, the one I spoke to earlier with respect to my comments at the start of this meeting, which is that you haven't the raw materials you have to ship in to make the particular item, and you have to ship it back out, and the remaining factor we have to sell is the high productivity of our labor force, and if we have to lower the wage structure we may not be competitive.

So it is a situation that we have to live with.

Senator ABDNOR. You just touched on something. Talking about transportation, let me ask you:

How much of a factor has deregulation which has been carried on to a great extent here—transportation and other things—been? Does that have much of an effect on rural America, competing with outside interests?

Mr. HOWARD. I think it has from our standpoint. There are two ways I can look at this.

From the meat standpoint, we see with deregulation the return hauls on the trucking industry puts a lot of competitive products in our particular trade area that we maybe formerly did not see because of the high cost of freight from the other side.

We have a wholly owned subsidiary trucking company, where we have enjoyed some business that we formerly would not have had before deregulation. So I can see pluses and minuses to both sides, and actually I would say it puts us in a more competitive position.

Senator ABDNOR. Well, I know deregulation sounds great, but we were talking today about the price of an airplane ticket. You have come from South Dakota to Washington; previously you could have made two trips coast to coast, from Washington to the coast and back. That makes it very difficult.

Plus we have had a number of our airlines that are no longer running to some of our particular towns and small cities.

One big insurance company moved from one city to another in South Dakota, and one reason was the airline service. That is a big influence, I think, on businesses coming into a State. It probably shows up in who is getting the biggest end of the business.

Mr. COPE. Senator, I would like to comment on that from the standpoint of Yankton. When we had regulation of the airlines, the airline was required to give us service to Yankton.

Now, at that time the airline was Republic. They apparently didn't really want to provide that service, so they just flew airplanes whenever it was convenient for them, not when it was convenient for passengers, and the utilization of that kind of service was terrible.

Republic finally achieved their goal—which I believe was their goal—and finally got out of service to our community and set up a commuter airline. That airline did a pretty good job of flying when people wanted to fly.

And then there was a decision made back here that they weren't going to provide the subsidy that had been provided in the past, and along with that we were seriously concerned about losing that airline service. The first thing that people talk about when they are talking about industrial development process coming into your community is transportation, and airlines are one of the most important things—air service. And if you are trying to attract industry to move into an area where you don't have reasonable airline service, you are fighting a tremendous uphill battle. It is very difficult. We must have this minimum level of service.

Senator ABDNOR. I fought as hard as I could to get that $62 million back, or we wouldn't have what you do have in Yankton.

Mr. COPE. Senator, I got to notice where you have gotten that restored to the budget, and it is terribly important.

Also terribly important is dependability long range. If you start a factory at a location, it is going to take a substantial capital investment. They are going to have to be there for a number of years, and having this insurance for one more year, while it is helpful, isn't the whole answer. It needs to be something that can be counted on. It is going to have to be a policy that people can plan and base their operations on.

Senator ABDNOR. Have you any views on what deregulation has done to rural America overall?

I think even the great telecommunications breakup scares the heck out of me. What is gong to happen down the line?

With new innovations and all, they are going to be located strictly in metropolitan areas.

Mr. TWEETEN. My impression is that overall it has not advantaged rural areas. But overall it has reduced transportation and communication costs for the Nation.

Mr. DEATON. I would basically agree with what Professor Tweeten said. Overall it may have disadvantaged some communities.

It may be particularly relevant to the airlines area, as Mr. Cope mentioned a moment ago, an industry or service that is being increasingly important to the kind of technological society that we are working in today.

Clearly, the telecommunications area also, with the kind of computer linkups over telephone lines, there are dangers in some rural areas where they cannot gain access to the proper kind of efficient functioning system that many small businesses are going to have to depend on in the future.

I have seen some evidence on the other hand—and I believe Mr. Howard mentioned this—where in the trucking industry there have been advantages to some extent, so it is probably a mixed bag.

Senator ABDNOR. You have to admit it hasn't exactly enhanced the airline companies. They are having more financial problems than they ever had. Some of them may be benefiting, but surely, from what I have seen, no great gate to the airline industry. If they continue on the path they are on, except for the big airlines, it makes you wonder what is going to happen to the airline services. Maybe the prices won't always stay as low as they are with the competition as great as it is today, especially the prices you receive on tickets.

Mr. DEATON. I gather there has been more competition among small commuter airlines that have competed with some of the large airlines.

Senator ABDNOR. If we lost that small airline subsidy, we wouldn't have an airline in South Dakota. We have one that makes one stop at Pierre, our State capital. If we didn't have that, we wouldn't even have an airline service into our capital.

I just don't think you can ignore that. I think things like the Postal Service and maybe electricity and lights and a few other things, whether we are against the Government subsidies or not, ought to be a part of the United States. I personally think you have got to pay some attention to that.

Let me ask you one question. Do you find foreign surpluses competing with you for the Government school lunch program?

Mr. HOWARD. Foreign surpluses?

Senator ABDNOR. Food surpluses—suppliers, not surpluses.

Mr. HOWARD. There is a restriction that you cannot use any foreign commodities in the school lunch program. So that is not a problem.

Senator ABDNOR. I didn't even know that.

Well, there are a lot of things I want to touch on, and already I have got to vote; it is after 12 o'clock.

We started out by talking about the budget. I hope all four of you agree that we have taken the right step in trying to reduce the budget. That may be the best move, at least for agriculture. I know darn well if you can drop interest rates and get our dollar back in line, it probably would be best for all of our businesses, too.

Apparently, this Congress is coming to a recognition of that. Everybody thinks that is the magic number, $50 billion. We seem to have a thousand different ways to get it, but nevertheless I am convinced we are going to end up with something, and hopefully that will help.

We give up a lot of things, you are right. We have touched on EDA's, maybe UDAG grants. Even the revenue sharing seems to be so close to the hearts of our mayors and communities, and in our proposal over here they all went down the tube.

They want to take out Amtrak. They claim it costs $32 for the Government every time somebody gets down to ride it.

But hopefully that is still a fair tradeoff with the opportunity to get interest rates down. Am I off base when I say that is probably the best tonic for rural America we have going now?

Mr. COPE. Senator, I think it has been pretty much unanimous that we in rural America are more than ever before deeply involved in the broad economic trends and conditions, and we have got to get those things straightened out to have any chance to be successful in rural America.

In addition to that, we have peculiar problems of rural America where we need other programs and other help. Right now, the high interest rate and the high value of the dollar is so pervasive we have got to do something before we can accomplish anything.

Senator ABDNOR. Well, thank you.

Listen, I have to go, but before I close my hearing I want to feel free, if I can, to submit a couple of questions to you people. I have some thoughts I want from you people about rural America, and also Mr. Tweeten and Mr. Deaton.

So as we do so oftentimes, at least in my Appropriations Committee, we will submit questions in writing. So don't be shocked when you get a letter from us with some questions we would like to have some kind of answers on. We would be very grateful.

Senator Nickles was going to try to make it down. He is not a member of this committee, but when he heard you were coming he was very interested in it. But as is so often the case, he has so many meetings going on, and he has to bounce around like Senator D'Amato. The chairman has to stay in one place.

But when you have three committee meetings going on at the same time, you really can't get to them. They love taking pictures today with empty seats and keeping attendance records, and sometimes in a campaign they can go home and say he is interested in this but he has only been to so many committee meetings; he can't be that interested. But that is what happens.

We are spread very thin, but I know a lot of people who are members who would like to sit on this today, and I certainly thank you all for coming. All of you have made a great contribution.

As I said, we need more information from you, so we will feel free to contact you and are looking foward to having you back at another time.

I certainly want to thank all of you for your testimony, and we hope when we speak of bringing the fruits of economic recovery to rural America that that in itself is not enough, but we need to create the kind of favorable economic climate that will not only bring an economic resurgence but will also maintain it.

Our rural economy is going through a period of historic change, and if we are to survive and even flourish, our businesses and our communities must adapt to these changes.

So we have seen some economic success stories this morning from two companies we brought in from South Dakota, which we are very proud of, and they have done it the hard way and so far have been able to survive all the obstacles in the path.

If we can just come away somehow and make people in government and both Congress and our agencies and businesses and industries feel we recognize the problem we are having and that rural America is an important part of this whole economic picture, we will come a long ways with what we are trying to do in these hearings.

I think we are about the only committee I know that is paying much attention to this problem, and now we have got tc figure out how, when we do get some facts and figures and thoughts, to disseminate the material at least to some of our more rural congressional districts and get them involved in this, too, because it is going to be a selling job to try to make people recognize the problem.

So with that, I thank you all for coming out and am looking forward to another meeting in the future.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

ECONOMIC DEVELOPMENT STRATEGIES FOR NONMETROPOLITAN AREAS

by

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February, 1985

Governmental Research Bureau, Occasional Papers Series No. 85-1

"Economic Development Strategies for Nonmetropolitan Areas"

Introduction

During the 1970's nonmetropolitan America reversed a long-standing trend of decline as population and employment increases substantially outpaced that of metropolitan areas (Beale, 1981; Till, 1981; Menchik, 1981). Nonmetropolitan population grew by 15.4 percent from 1970 to 1980, and employment grew by 24.4 percent during the 1970-1977 period. Metropolitan areas, on the other hand, posted population and job growth rates of 9.1 and 14.2 percent, respectively, for the same time periods. Despite the fact that nonmetropolitan locations outperformed metropolitan areas by quite a bit with respect to population and job growth rates, nonmetropolitan residents continue to lag substantially in terms of absolute levels of economic well-being. In 1979, for example, nonmetropolitan per capita personal income was 77.1 percent of the metropolitan level of $7,743, and the proportion of persons living in poverty was 135.1 percent of the metropolitan average of 11.4 percent (U.S. Department of Commerce, 1983:1-11). Furthermore, the number of persons who are either unemployed (if discouraged workers are counted) or subemployed is generally acknowledged to be higher than is the case for the metropolitan population (Tweeten and Brinkman, 1978; Briggs, 1981).

Perhaps most important is that changes in nonmetropolitan economic well-being lag substantially behind changes in nonmetropolitan population and employment growth. For example, the nonmetropolitan per capita personal income growth rate of 154.5 percent was only 14.2 percent greater than the metropolitan increase of 135.3 percent. On the other hand, the 1970 to 1980 nonmetropolitan population growth rate of 15.4 percent was 48 percent greater than the metropolitan rate of change (9.1%). Per capita income increases also lagged behind employment increases, with the nonmetropolitan job growth rate (24.4%) exceeding the metropolitan rate of growth by 71.8%. In other cases, nonmetropolitan rates of change in economic well-being have not just failed to match or come close to nonmetropolitan population and employment growth rates, but have actually fallen below those of metropolitan areas. Between 1975 and 1980, for example, total personal income increased by 72.7 percent in metropolitan locations, and only by 69.5 percent in nonmetropolitan areas (U.S. Department of Commerce, 1982).

Although not exhaustive, these data highlight a paradox for nonmetropolitan areas -- growth in population and jobs is substantially exceeding that of metropolitan areas, but changes in economic well-being are not keeping the same pace of growth. Such a paradox, and there are others, presents students of rural development with some interesting problems. For those persons who are interested in promoting the economic development of nonmetropolitan and rural areas one question which begs for an answer is what is keeping nonmetropolitan and rural economic development programs from achieving greater success? This paper addresses this question and identifies strategies which nonmetropolitan and rural economic developers can utilize to better articulate, focus and target their resources.

One obvious approach to answering this question would be to review case studies of both metropolitan and nonmetropolitan economic development to identify what seem to be the critical factors associated with the general paradox noted above. Such comparisons might also identify critical differences between nonmetropolitan areas where economic development has been successful and areas where success has yet to materialize. The paucity of numerous, high quality, detailed case studies dictates against such an approach, however.1

A second path -- and one which should precede any aggregate analysis of case studies -- is to draw upon and synthesize the empirical and non-empirical literature on economic development to identify the forces which constrain nonmetropolitan development efforts. Four perspectives articulated in the literature on economic development are drawn upon in this paper to help understand and identify the adaptations which must be made if nonmetropolitan economic development efforts are to be more successful. The first perspective focuses on the growth of the multi-establishment corporation. These large business enterprises which are located in multiple places now control a majority of U.S. manufacturing jobs, assets and production. Most important, through their location choices, and intra- and interorganizational linkages, these corporations structure regional and community input-output flows and industry linkages in ways that make traditional models of regional economic development unrealistic.

A second perspective which can help highlight the critical aspects of nonmetropolitan economic development examines the rural industrialization process in terms of nonmetropolitan "dependence" upon metropolitan areas. As such, the social, political and economic power relations between metropolitan and nonmetropolitan areas are of interest. This perspective thus helps shed some light on the origins, nature and impacts of traditionally defined urban trends (e.g., industrialization) as they diffuse to nonmetropolitan locations. The thrust of the perspective is that nonmetropolitan-metropolitan relations have evolved in such a way as to fost r dependency relations between subordinate and dominant sectors of society. Nonmetropolitan industrialization, then, takes place within this dependency context, and will continue to be underdeveloped, relative to that of metropolitan places unless selective changes are made.

The third literature base focuses on industry location trends and the correspondence between these processes and the nature of nonmetropolitan and rural comparative advantages. The recent growth of industry in nonmetropolitan locations, according to this perspective, has less to do with rural economic development efforts than with the comparative advantages of such locations within the context of evolving industry needs. While significant opportunities exist for nonmetropolitan communities to influence their comparative advantages and thus take advantage of the decentralization of industry, efforts must be targeted.

Finally, the paper draws upon information on the economic impacts of nonmetropolitan industrialization upon residents and communities to help identify potential areas of strengths and weaknesses in these development efforts. In general, the evidence indicates that the economic impacts of industrialization in nonmetropolitan areas are neither as universal nor as positive as popular development rhetoric would lead one to believe. Because "myths" surround economic development impacts, particularly in nonmetropolitan settings, it is important to explore them.

These four perspectives and bodies of literature are treated as discrete and separable; the reality, however, is quite different -- each is intertwined with the others. Each of these perspectives can contribute, however, to a richer understanding of nonmetropolitan economic development and the strategies which are necessary to make scarce economic development resources more productive.

The Growth of Multi-Establishment Corporations and Changes in Regional Development

One major reality of the U.S. economy which has been largely ignored by students and practitioners of nonmetropolitan economic development is the multi-establishment corporation.2 The U.S. economy in general is increasingly being dominated by a limited number of corporations and conglomerates located in multiple places (Pred, 1977). These multi-establishment corporations control a majority of jobs, production and economic assets in the U.S. Furthermore, for these businesses territorial space is flexible and subject to constant competitive and strategic alteration as a result of changing situations. Governmental units, particularly states and their communities, have their authority confined to a very specific and fixed geographic territory, however. These forces work together to create a situation that gives multi-establishment corporations considerable influence over the development and actions of communities and states. Because of their scale, diversity, resources and locational configuration, multi-establishment corporations are structuring regional and community input-output flows, industry linkages and location forces. These impacts are highlighted in the following pages.

Changing Conceptions of Regional Economic Growth

Traditionally, conceptions of regional and local economic development have stressed "growth center" (or "growth pole") and "hierarchical-diffusion" interpretations. Growth center views stress that development at a growth center or pole will result in a concentration of employment multipliers and other effects within a city and its surrounding hinterland (Boudeville, 1966; Earickson, 1975). The growth pole view thus sees the growth impulses of communities as largely contained within the region; growth impulses are transmitted from the growth center to smaller towns in the same region. Hierarchical-diffusion interpretations of economic development stress that growth spreads on an inter-city basis primarily through the trickling down of innovations through the urban hierarchy (Thompson, 1965). Thus, economic innovations are adopted by the largest metropolitan centers and diffuse to middle and lower-order metropolitan centers. Once an innovation has begun diffusing on an interurban basis, growth impulses diffuse downward within the region surrounding metropolitan centers (Berry, 1973).

While these interpretations of economic growth were undoubtedly appropriate at a certain point in time, rural and urban economists and ecologists are beginning to recognize that it makes more sense to study organizations -- particularly multi-establishment corporations and not specific places, regions or economic factors -- as the major units which organize and structure the growth of cities and adjacent areas (Lincoln, 1977; Pred, 1977; Friedland, 1982). This line of reasoning flows from the dominance of the U.S. economy by a relatively small number of large, complex, spatially dispersed business enterprises. As Pred notes, these multi-establishment corporations dominate growth and development processes because

> they are the most significant implementors of explicit and implicit locational decisions, because they directly account for a majority of job opportunites . . . and because they are the most important propagators of interurban flows of goods, services, specialized information and capital (1977:183).

In general, multi-establishment corporations affect economic growth in at least three ways. One pathway through which multi-establishment corporations affect the economic growth of cities and regions is through their location decisions. Multi-estalbishment corporations generally have at least three organizational levels. Each level, in turn, has its own locational requirement. Top level functions are concerned with strategic and non-routine decisions. Such activities require extensive direct personal contacts, a rich array of supportive business services and access to high quality inter-city transportation. Information-rich locations are thus most likely to attract the top-level control functions of corporations and conglomerates. As Lloyd and Dicken (1977) note. 25 cities contain the headquarters offices of 407 of the leading 500 industrial corporations in the U.S. Furthermore, 63 percent of the headquarters are located in only nine cities.

Second-level corporate activities focus on more routine administrative functions. While such activities also require information-rich locations, the tendency is less pronounced than is the case for top-level functions since telephone and written communications are more acceptable for this level. Still, such needs can typically only be met in population centers of some size. These second-level units may be located in the suburban fringe of a central city where the corporate or conglomerate headquarters is located or they may be located in sizeable population complexes in other regions of the country, depending upon the product, marketing and administrative strategies characterizing the unit (Pred, 1977:118).

Production-oriented units of multi-establishment corporations are the most "footloose" units of the organization. They may be found in nonmetropolitan and metropolitan cities of widely varying sizes, depending on the plant and unit's locational requirements. Specific locational issues are discussed in a later section.

More pervasive influences upon economic growth are exerted by these multi-establishment corporations through intra- and interorganizationally generated inter-city linkages. Many large corporations are involved in producing goods and services in both industrial and non-industrial sectors. This often permits corporations and conglomerates to develop input and output links between various units and sub-units of the larger organizational entity. For example, some corporations are vertically integrated; the corporation may own a steel production company, as well as ore mines and ships for transporting the ore to processing sites. Other multi-establishment corporations are horizontally diversified. Thus, a corporation involved in large-scale real estate development may also own banking and construction businesses. Such characteristics result in a number of linkages and multiplier effects between cities as multi-establishment corporations "do business" with different sub-units and divisions that are part of the larger corporate entity.

Interorganizationally generated linkages and multipler effects are also critical to understand. As Pred (1977) notes, changes in transportation and communications technologies have facilitated both the rapid movement of goods, as well as the transmission of specialized information, financial, insurance, and other business services over long distances. New technologies have also increased interorganizational interdependencies by fostering greater production specialization, thus necessitating more elaborate input-output relationships for any given facility.

When coupled with the spatial characteristics of multi-establishment corporations, the increasing intra- and interorganizational linkages of the modern economy result in a considerable part of the goods and services linkages for most cities and areas occuring with non-local organizations outside the home region. Robinson, for example, found that around 50 percent of total expenditures for goods and services for most metropolitan areas are for goods and services produced outside the region (1969). In a study of manufacturing companies in the Dallas/Ft. Worth, Texas area, Rees (1978) found that 68 percent of the materials purchased by the manufacturing companies came from outside the metropolitan area, and 60 percent came from outside the West South Central census region containing Texas, Oklahoma, and Arkansas. Rees also examined the backward (input) linkages of one large defense contractor in the DallasFt. Worth metropolitan area. Over a two year period he found large changes in the spatial configuration of the linkages. On total purchases of $237 and $393 million in the two years, procurement from California grew from 13 percent to 42 percent of total input purchases. Procurements from Connecticut, however, declined from 28 percent to 5 percent.

Any given city, then, will have a number of interdependencies with other cities and regions as a result of the growth and dominance of multi-establishment corporations. Because these businesses control capital, labor, and production; because they have an extensive organizational network to help in the production, marketing, and distribution of their goods and services; and because of their administration, information and coordination needs, these corporations will rely on areas and cities outside any given locality where they operate.

In this regard, nonmetropolitan cities and areas will have a much greater non-local interdpendence than metropolitan communites because of their smaller and generally less diverse economy. Furthermore, economic growth for nonmetropolitan towns and cities will not be a function of an adjacent or nearby metropolitan area, or even of the region the nonmetropolitan city is in. Rather, growth will largely be a function of the linkages which local businesses have to organizations in other cities in other regions (Pred, 1977:108). This is a product of the fact that a given multi-establishment corporation is likely to have job-control linkages through its plants located in other metropolitan areas and the smaller towns in the hinterlands. The implication of these relationships is that investment and activity increases in a given locality are likely to have both intraorganizationally and interorganizationally-based multiplier effects that take place in other areas (Pred, 1977:116).

In summary, the structure of city and area interdependencies resulting from the intra- and interorganizational relationships of multi-establishment corporations is complex. It is becoming increasingly clear, however, that the economic dominance and spatial diversity of such business organizations is resulting in most cities and regions finding that a substantial portion of their growth impulses are a function of activities in other regions and cities. This contrasts with traditional views of regional and urban development which have stressed "growth center" or "growth pole" and hierarchical-diffusion conceptions of development.

Dependency Perspectives of Nonmetropolitan Development

For years, theories of metropolitan dominance have had a prominent place in thinking about regional economic development. However, metropolitan-hinterland relationships have generally been visualized as involving mutual interdependence more than outright dominance or exploitation (Duncan, et al., 1960:84). Accordingly, the development of interdependencies through trade and employment with metropolitan areas has been seen as the route by which small nonmetropolitan communities gain access to the higher level of productivity and resources of the entire economic system (Hawley, 1950:225).

In recent years, an alternative interpretation of the metropolitan-hinterland relationship has developed around the notion of metropolitan dominance, or hinterland dependence. This latter perspective emphasizes that when market economies prevail, the development of regions will be uneven and that metropolitan areas will develop at the expense of the hinterland. Metropolitan areas are thus seen as being centers for capital and the control of production and resource development functions which may be assigned to nonmetropolitan locations (Gras, 1922). Positive benefits, or spin-offs, will be utilized more extensively in the metropolis, while negative spin-offs will be disproportionately assigned to the rural area; in this sense nonmetropolitan locations are "exploited."

Galtung (1971) identifies three historical phases of metropolitan domination over the rural hinterland. Colonization, the first, is characterized by the taking of rural resources with no compensation. The second phase involves unequal resource exchanges whereby metropolitan areas derive benefits which are greater than those accruing to nonmetropolitan locations. In this phase, markets for products, for example, are more highly developed in metropolitan locations and are thus more fully utilized; metropolitan locations thus benefit more than nonmetropolitan locations. In yet a third phase, dominant locations utilize spin-off effects of economic processes to maintain power and resources. Thus, technologies resulting from earlier technological advances are retained in metropolitan locations to serve as the basis for new economic activities and productivity advances. Likewise, metropolitan areas export negative spin-offs to the hinterland. The location in rural areas of power-generating facilities serving metropolitan markets is such an example.

As Galtung (1971) indicates, the crux of dependency theory today lies in the superior ability of U.S. metropolitan locations to utilize the "spin-offs" of economic activities. While the specific implications of this perspective for nonmetropolitan economic development are dealt with in detail later, some general examples follow.

One major spin-off of economic development is profit (Lovejoy and Krannich, 1982). Because so much of the capital for industrialization in nonmetropolitan areas comes from the metropolis, however, small communities are not able to benefit from profits which may accrue as a result of new manufacturing development. Not only is the majority of capital centered in metropolitan-based institutions, but many nonmetropolitan banks and capital organizations are branches or subsidiaries of those metropolitan-based entities. While the ability to capture profits or returns on investments varies by region, nature of the development and the community, to the extent that profits flow back to metropolitan areas, nonmetropolitan development will be at reduced levels.

Nonmetropolitan areas may also lose out in economic development if resources extracted or processed in the hinterland are not owned by local or area residents. This is, for all practical purposes, the reverse of the capital and profit spin-off problem. If resources are owned by non-local corporations, then sales of the resources produces no direct local gain beyond the new jobs and economic activity resulting from job creation.

Economic activities also produce spin-off technologies. For the most part, spin-offs are disproportionately centered in metropolitan locations. Nonmetropolitan areas tend to acquire industrial activities late in the product cycle (Rees, 1980). As a result, technologies are routinized, and the industry is often on a production plateau or even declining. Newly developing technologies and experimental research and development work, on the other hand, tend to be clustered in a relatively small number of metropolitan areas, particularly near corporate headquarters locations. Such activities tend to spin-off new ideas and techniques, thus serving as a "seedbed" for additional economic activity. Because of their small size, diversity and capital, nonmetropolitan areas are not able to utilize such potentials to their fullest.

Another spin-off of new economic development is the multiplication effect of new wages in a nonmetropolitan community. Based upon economic base theory, new export base jobs (jobs associated with producing a good primarily sold outside the area) produce economic waves in communities which create "local" jobs -- jobs associated with many types of services and retailing, for example. To the extent, however, that the enterprise is owned by non-locally headquartered organizations and persons, multiplier effects are likely to be retarded. This is a function of the non-local linkage dynamics explored earlier in the context of multi-establishment corporations, as well as the linkages between the local production unit and control units in the metropolis. Such a structure often means that purchasing and other spending decisions and actions are made non-locally. Just as important, the smaller number of control functions located in nonmetropolitan places acts to reduce the number of higher paid professional and managerial employees. This dampens the impact of new nonmetropolitan industrial installations since the standard multiplier effects are based upon industrial activities in a metropolitan context -- activities that generally contain a larger compliment of managerial and professional employees.

Finally, some new industrial or economic activities involve negative spin-offs such as air, water or land contamination and degradation. To the extent that this occurs without compensation to the nonmetropolitan area beyond new jobs, the development may produce net economic and non-economic losses to the developing area.

Typically, metropolitan dominance perspectives have taken the form of positing hinterland dependence upon a metropolitan center or centers within a region. Given the knowledge we have of how multi-establishment corporations have altered intra- and interregional economic exchanges and flows, it is more reasonable to posit a more general non-metropolitan dependence upon metropolitan areas. The critical unit of analysis -- according to the multi-establishment perspective -- is not geographic, it is the modern corporation and conglomerate.

To understand metropolitan dominance today, then, we should not look so much at trading and other economic linkages within a region, but at the division of labor in modern business structures and the co-occurrence of this with metropolitan and nonmetropolitan locations. As noted earlier, the secondary coordination and tertiary production functions of multi-establishment corporations have become more "footloose" in recent years, but the control functions of these business enterprises remain centered in large metropolitan areas. Pappenfort (1959)and Lieberson and Allen (1965) indicate that, within industries, metropolitan areas are characterized by greater centralization of administrative offices than production components. Likewise, Winsborough (1960) found that employment in clerical tasks increases with city size and that employment in operative occupations declines.

More recently, Rees (1980) has indicated that while manufacturing employment has decentralized from metropolitan to nonmetropolitan areas, employment relating to control and organizational maintenance remains in the metropolitan centers (even though there has been a decentralization of control functions from "Frostbelt" to "Sunbelt" metropolitan areas). Information on recent changes in metropolitan and nonmetropolitan employment are also indicative of this continuing metropolitan-nonmetropolitan division of labor. During the 1970-1977period, metropolitan manufacturing employment declined by 1.6 percent, while growing by 15 percent in nonmetropolitan areas. Despite the overall decline in manufacturing employment in metropolitan locations, manufacturing professional and managerial employment increased by 14.1

percent during the same time period; numerically, professional and managerial employment increased by 340,000 in metropolitan locations and by only 171,000 in nonmetropolitan areas (U.S. Department of Commerce, 1978). Another perspective of the maintenance of control functions in metropolitan areas is provided in a study of corporate disinvestment trends during the 1977-198. period, which found that manufacturing corporations were much less likely to reduce employment in the metropolitan area where the headquarters was located than elsewhere in the U.S. (Sheets, Smith and Voytek, forthcoming, 1985).

Thus, while economic linkages are no longer primarily characterized by a regional hierarchy or even an interregional hierarchy, the control functions are, and continue to be, centered in metropolitan locations. Whether or not the flow of causality is on the order of exploitation of the hinterland by metropolitan areas is not as well documented as might be preferred. The perspective has potential utility, however, in that it does alert economic developers to fundamental features of today's nonmetropolitan economy, and it can help put lagging nonmetropolitan economic performance in perspective.

In summary, the nonmetropolitan dependency perspective alerts us to the possibly exploitative and development-dampening effects of metropolitan-nonmetropolitan interdependencies in today's advanced industrial economy. The important points in regard to this perspective are several. First, control functions are largely centered in metropolitan areas. Second, metropolitan places have a superior power to effectively utilize the spin-offs of economic development to their advantage. Nonmetropolitan places must thus act to minimize the negative, and maximize the positive spin-offs of economic development. While this is difficult in today's complex economy and industrial structure, it is imperative that nonmetropolitan communities identify potential and actual spin-offs, measure their local utilization, and take corrective action, where possible.

Nonmetropolitan Manufacturing Location Trends

Industrial jobs are vied for because they have the potential to provide more employment and bring in new income for nonmetropolitan communities. Generally, it is hoped that more jobs and increased incomes will reduce outmigration and improve individual and community economic and social well-being. Although industry attracted to nonmetropolitan places has typically paid wages below the national average for all manufacturing industries, the wages have tended to be higher than is the rule for small towns in nonmetropolitan areas (Tweeten and Brinkman, 1976). Higher incomes, coupled with reduced outmigration, result in a greater support base for service and retail establishments, as well as governmental services, so the traditional export base theory argues.

For these reasons, as well as others, industrial development has typically been selected as the primary route to economic development in nonmetropolitan locations.3 Yet, as one might guess, the success of nonmetropolitan economic development programs has been mixed. In fact, there is much evidence that the general growth of nonmetropolitan manufacturing employment has been a function of broader forces of economic decentralization rather than federal, state, or local policies designed to promote such growth. But, within nonmetropolitan America, some communities have grown while others have not. Are there factors which can be associated with the differential success of these communities? The literature on industrial location provides some good clues.

Structural Processes of Manufacturing Decentralization

Rees argues that at least four types of industrial decentralization processes have been underway in the U.S.: (1) an international movement involving shifting production from American to foreign locations; (2) an interregional movement involving the diffusion of manufacturing employment from the core manufacturing region (North Central and North East census regions) of the country to periphery regions; (3) suburbanization involving the spread of manufacturing throughout metropolitan areas, particularly in outlying fringe locations; and (4) nonmetropolitan shifts (1980). Rees argues that ". . . market mechanisms, working through structural changes brought about by new technology, have played significant roles in these industrial decentralization processes" (1980:145).

In general, the factors important in understanding interregional shifts in industry employment in the U.S. are also useful in understanding the shift to metropolitan areas. Among the most important are the use of underemployed females who are in the labor force, lower wage rates, the existence of a strong work ethic, lower levels of unionization, lower cost land, and improved communication and transportation networks.

Product life-cycle processes also underlie much of the movement of industry to nonmetropolitan locations in the last two decades. As developed by Vernon, the product cycle model posits that products evolve through three distinct stages. First is an innovation stage where a new product is manufactured in the home region of the business enterprise and introduced in new markets through "exporting." The second phase is characterized by growth in external demand which ultimately leads to direct investment in production facilities and routinization of production technology. "Standardization" characterizes the third stage and is typically manifested in shifting production to low-cost locations. The importance of these stages for understanding nonmetropolitan manufacturing job growth lies in the geographic patterns of product cycles; the product innovation stage is generally carried out in technology-rich areas in or near large metropolitan locations, while standardization favors lower cost nonmetropolitan places.

In summary, then, much of the growth in nonmetropolitan manufacturing employment has come as a result of broader processes of decentralization including the pull of demand in peripheral regions and the search for lower cost production factors. It is doubtful that the major impetus for nonmetropolitan manufacturing job growth has been the incentives (whether they be financial, land, buildings or labor training) offered by rural onomic development programs. This is substantiated in large part by studies of specific plant location decision processes.

The Dynamics of Industry Location in Nonmetropolitan Areas

Tweeten and Brinkman (1976:230-231) note that nonmetropolitan areas received the majority of new employment in 19 of 21 two-digit manufacturing industries from 1947-1967. Perhaps most important, the nonmetropolitan share of total national employment increased during this same period in 11 of the 21 manufacturing industries (textiles, apparel, furniture, chemicals, petroleum refining, rubber products, primary metals, electrical machinery, transportation equipment, instruments, and "miscellaneous"). In an analysis of Dun and Bradstreet data for the 1970's, Schmenner (1982) found that nonmetropolitan areas gained in their share of total national employment in each of nine broad manufacturing industry groups. Industries especially prevalent in nonmetropolitan areas were "Forest-Tied" (lumber and paper) and "Labor-Rate Sensitive" (textiles, apparel, furniture, leather, household appliances, electric lighting and wiring, and radio and television receivers) industry groupings. Two industry groupings were rather evenly distributed across metropolitan and nonmetropolitan locations ("Agriculture-Tied" and "Heavy Chemicals/Oil/Rubber/Glass"), while the remainder were tied to metropolitan locations.4

Most business site selection processes involve regional and then local analysis components. Evaluations typically revolve around a comparison of the costs and benefits of alternative sites. Among the items frequently examined are site and site preparation costs; equipment costs; labor and fringe benefit costs; start-up costs (training and initial production inefficiencies, for example); working capital requirements such as inventories, materials and accounts receivable; freight (in and out) costs; taxes; workmen's and unemployment compensation payments; relocation expenses of managers and other employees to be moved; and a forecast of expected revenues to be generated through the new plant (Schmenner, 1982:31). While the level of detail and sophistication involved in developing this information varies across business establishments, assembly of the data usually requires repeated iterations. Most companies feel satisfied with their process, however, because they simplify the early stages of the selection process by using "checklists" and other short-hand approaches to identifying regions and, ultimately, sites.

An initial focus by companies is on the "musts" -- things that have to be present at the new location in order to be competitive and make a profit -- as opposed to the "wants" -- things that are desirable, but which can be foregone if the "musts" are compromised too much. These factors are a product of a company's prevailing multiplant manufacturing strategies and the primary operational costs which are related to location (Schmenner, 1982:37). Six requirements are dominant in the site selection process:

--labor costs

--labor unionization

--proximity to markets

--proximity to supplies and resources

--proximity to other company facilities; and

--area quality of life.

Despite these general tendencies, and they are just that, it is extremely difficult to pinpoint the exact impact of a single factor on a company's location decision process. Manufacturers see themselves as being constrained in their location search in widely varying ways Labor costs are more critical to some industries than to others. Proximity to markets is a major consideration for some, but not for others. The competitive advantage which might accrue to a nonmetropolitan community as a result of shifting the cost, availability, or quality of a given factor (through the local economic development program), then, depends on which areas the community is being compared to, the strength of changes brought about by the shift, and the companies and industries which might be affected by the shift.

As indicated earlier, the first phase of the site decision process focuses on identifying a region or state in which to locate. Among the most important "musts" at this point are labor climate and market proximity. While over 75 percent of the new or relocating plants surveyed by Schmenner (1982)indicated labor climate as an initial must, there were industry variations. As might be expected, Cost-Sensitive industries rated this very high. Industrial Machinery and Transportation, Heavy Metalsand Specialty Chemicals/Metals also rated this factor as a critical must. Labor climate was less important to Forest- and Agriculture-Tied plants. Market proximity was rated by 55 percent of the plants as a must in the initial stage. Again, variations exist across industry groupings, with Market Sensitive industries (food processing, paper converting, printing, plastics fabrication, can making and miscellaneous manufacturing) placing greatest weight on this factor. Labor cost-sensitive industries, dealing with specialized products with wide geographic distribution were not as concerned with market proximity, on the other hand. Around one-third of the plants rated quality of life, proximity to inputs/supplies, and low labor costs as important musts in the first stage of the location decision process (Schmenner, 1982:152). Similar findings are reported by other researchers (Summers, et al., 1976).

In the second phase of the location process, attention focuses on local or site-specific factors. Across all industries, rail service, proximity to an expressway or interstate and utilities were listed by at least one-third of the plants as site "musts." Again, there are variations across industries, as might be expected. Most frequently mentioned as "desirable" site-specific factors were favorable labor climate (74%), low land costs (60%), proximity to markets (42%), low taxes (35%), on an expressway (35%), rail service (30%), and low wage costs (28%). Rated low were government financing (13%) and available land and buildings (3%) (Schmenner, 1982:151).

In thinking about these location factors, two broad categories can be identified - factors under community control and factors not under community control. Proximity to markets, proximity to supplies and resources, proximity to other company facilities, transportation networks, federal and state development-related policy, and certain other factors are not typically under community control. As Tweeten and Brinkman (1976) note, these factors can be exploited, but they must usually be accepted by the community. Community controlled factors include the cost and availability of land and buildings, taxes, public services, financial and other development incentives, and aspects of the local labor force (only partially controllable).

While some of the most important "musts" are out of the control of communities, hard work in supplying accurate and detailed information on community-controlled factors can overcome deficiencies in other areas. In a study of development in Southeast Kansas, Brinkman (1973) found that more than one-half of new plants indicated that factors under the control of communities were critical in the final site selection. Tipping the scales were the existence of community facilities for business operation (buildings, land, utilities), financial assistance (most often adequate private financing at unsubsidized rates), and positive community attitudes toward business and private enterprise. Similar findings are reported by Shaffer and Tweeten (1974) and by Schmenner (1980). Overall evaluations, rather than evaluations of individual location factors, are generally most influential in final site selection decisions.

In summary, there are a number of important points made in the literature on industry location decisions which are relevant to efforts to increase nonmetropolitan manufacturing. First, broad forces of economic decentralization have been and continue to be at work. Because of the importance of cost and other factors associated with nonmetropolitan location (e.g., a nonmetropolitan comparative advantage), some nonmetropolitan communities will be the locational choice of industry without doing anything. While these communities will likely be overwhelmingly located in the growing Sunbelt areas where cost, market and labor climate advantages co-occur, there will be some nonmetropolitan growth in every region, even if there is no emphasis upon economic development Second, the locational decisions of manufacturing enterprises have commonalities and permit targeted recruiting efforts if industry-specific locational needs and local-area comparative advantages are understood by nonmetropolitan community economic development decision makers While site selection specialists and manufacturing corporations have built-in biases in regard to locational issues, these forces can sometimes be overcome by sound and detailed local-area planning. Third, while non-community-controlled factors are generally most critical in the location decision, communities can overcome deficiences (where they exist) by working hard on factors under local control.

In particular, nonmetropolitan communities can seek to create a climate conducive to business by ensuring quick and professional permitting and regulatory clearances, and by helping with the infrastructure and capital improvements needs of potential new industry. In small communities where these things are generally easy to do anyway, having a well coordinated development effort with an identifiable contact person or position can facilitate community-industry efforts. Overall community appearances and public services are also important. Working with area vocational schools, community colleges and state and area job training programs to develop "customized" training for new business can be a useful tool as well. Such labor training efforts are rated as important in states where they are used (Schmenner, 1982, Fichner, 1970). Training can be critical in acquiring industry with higher skill needs, and thus, higher wages. This could help nonmetropolitan communities break out of the low skill, standardization, declining/stable industry syndrome that is so often prevalent in these areas. In fact, recent research by Rees (1980) indicates that periphery and nonmetropolitan areas of the U.S. may be receiving manufacturing facilities earlier in the product cycle -- a factor which will be important in future income gains. This shift probably is in response to the upgrading of the nonmetropolitan workforce, as well as the maturing of metropolitan centers in periphery areas of the country.

In addition to working with the state capitol to enhance the business climate of the state and the quality of the workforce, these probably represent the actions which communities in nonmetropolitan areas can most effectively and efficiently undertake. There is, however, a widespread perception in nonmetropolitan (and metropolitan) areas that economic subsidies, in the form of tax abatements and reductions, free or low cost land, and buildings, are necessary to attract industry. While this is sometimes necessary and can "tip the scales" in a community's favor, all too often subsidies represent a case of "supply creating its own demand." Despite the voluminous information on the general lack of importance of financial subsidies in industry decisions (Summers, et al., 1976; Harrison and Kanter, 1978; Schmenner, 1982), communities continue to offer a wide range of them. There is no doubt that some subsidies are needed and efficacious, but most are simply taken advantage of because they are made available. The rush to subsidize industry is a function of nonmetropolitan desire for development, as well as business desire to add to the "corporate surplus" (Smith, forthcoming, 1985; Bachelor, 1982). Subsidies must be carefully costed out.

Several caveats must be noted. In recent years, a growing number of people have been arguing that economic development efforts should focus more on helping new businesses start up and existing small businesses to expand. Thus, rather than chasing after the branch plants of multi-establishment corporations, we should focus on the existing economic base and would-be entrepreneurs. This new perspective has largely developed around the work of David Birch (1979).

In wrestling with the disparities in employment growth that are so painfully visible across the country, Birch found that when he looked at the underlying dynamics or components of employment change (rather than net change), that most places tend to lose relatively equal proportions of their employment base each year through business closures and contractions. Thus, if we view jobs as water in a bath tub, we can see that most areas lose about 50 percent of their job base every five years. To quote Birch, "Differences between water levels and the tubs must depend almost entirely on how fast the faucets filling the tubs are running. That is the rate at which new replacement jobs are being generated" (1980:230). Who makes the decisions about replacement jobs? For any given area, Birch found that small (e.g., 20 or fewer employees), young (e.g., four years or less) establishments generate around 80 percent of the replacement jobs. Employment growth, then, is very much tied to job generation capacities of small, young, existing establishments and the development of new establishments.

In general, Birch's advice is sound. It is sound, however, not because of the overwhelming importance of small business to employment growth. Instead, it is sound because it recognizes the potentially destabilizing influence of too heavy a dependence upon branch plants for a given community or area. In fact, reanalysis of Birch's Dun and Bradstreet data for the 1969-1975 time period indicated that many of the "small" establishments creating jobs were actually branches or subsidiaries of corporations and conglomerates (Odle and Armington, 1982). When assigned their parent company's employment total rather than the employment for the local branch or subsidiary, the job generating differences between small and large establishments largely disappeared. Efforts to develop nonmetropolitan manufacturing employment, then, must focus on recruiting as well as nurturing new production ventures and existing operations. Particularly important are locally owned enterprises which are likely to be more responsive and loyal to community needs. Such companies are also more likely to emphasize hiring employees locally and purchasing production inputs locally, where feasible. Each of these tendencies enhance multiplier effects.

Finally, nonmetropolitan conceptions of what constitutes "basic" or export industry must become richer. Many service activities (e.g., busin ss services, health and nursing care) will draw income to a commu In fact, for many communities in the largely agricultural areas of the at Plains, the development of services for the far-flung and spa ttled farming and ranching lands is often the most viable option for dev opment in the future. Larger cities have taken away much of the shopping and retail trade. Nonmetropolitan communities must also try to capitalize on notable historic sites by tying attractions into tourism trade. Relatively small expenditures on historic resources can increase the economic impacts of tourism (Mintier, 1983:18; Putz, Waite, Jahr, 1979) which in itself is a major (if not the major) industry in many nonmetropolitan states and areas. Finally, communities must attempt to identify and develop strategies whi n incorporate cash transfer payments into their economic development efforts. As Hirschl and Summers (1982) note, nonmetropolitan communities are not simply centers of production and consum ion. They are also areas where cash and commodities circulate; the process of circulation, whether it be fueled by income from jobs or by income from transfer payments, determines the nonbasic sector.

The Impacts of Nonmetropolitan Industrialization

As indicated in the previous section, nonmetropolitan economic development efforts are predicated on the assumption that jobs will be created for community residents, that incomes will rise, that population growth will occur, and that trade will be stabilized or grow. Do these impacts materialize once industrialization takes place? If not, why? These are the questions that are addressed in this section.

Looking first at the economic impacts upon nonmetropolitan residents, we see mixed effects. For farm families the impacts are very positive. Hathaway (1963), for example, indicates that new non-farm manufacturing employment not requiring a change in residence is beneficial to local agriculture, as well as to farm incomes. Non-farm jobs help farmers stay in agriculture, and at the same time result in significant improvements in the level and stability of farm-family income, even if the manufacturing wages are relatively low. Likewise, if nonmetropolitan jobs go to the spouse and other members of the farm operator's family, income levels are raised.

Thus, although frequently overlooked in nonmetropolitan economic development strategies, adding what might often be viewed as "marginal" manufacturing jobs (e.g., subject to cyclical or seasonal demand and work load, low wages, low skill level. part-time work) -- the types of jobs that nonmetropolitan areas have a comparative advantage for -- can produce sizeable benefits to towns when the jobs go to local farm operators and their family members. Research has found the decline in farm numbers to be related to off-farm employment, among other factors (Larson, 1981). Furthermore, the decline in farm numbers is related to the decline of many nonmetropolitan communities. In South Dakota, for example, Smith (1985) found that counties with the largest farm declines during the 1960-1980 period also recorded the largest population declines during the same time period. The ability of counties and communities to counter the negative population effects of farm declines, in turn, was related to the existence or proximity to an urban center and the number of non-farm jobs.

The effects of nonmetropolitan manufacturing employment growth upon non-farm community residents are generally less positive than is the case for farm families, and certainly less than the idealized impacts envisioned in traditional economic base theory. One important finding is that the actual number of jobs going to local nonmetroplitan residents is often quite small in comparison to the number of new jobs created. Frequently, new jobs go to in-migrants, commuters, and new entrants to the labor force (Summers, et al., 1976). One important factor explaining this outcome is the level of skill required by a new production facility. Gray, for example, found that a new Kaiser Aluminum Company plant in West Virginia produced only 600 jobs for local residents when it opened in 1957 (1969). The remaining 3400 jobs at the facility went to more highly skilled non-residents. While the proportion of jobs going to local residents in this case might be lower than normal, the important point is that the greater the labor force-skill mismatch, the greater will be the loss of employment multipliers. Thus, a low-wage, low-skill plant might actually result in greater local employment multiplier effects if it hires a larger proportion of the unemployed or underemployed in the local labor force. On the other hand, unless the skills of the local labor force are improved, the likelihood of attracting high-skill, high-wage operations is reduced accordingly.

Perhaps one of the most comprehensive summaries of the economic, population and related impacts of nonmetropolitan industrial job growth yet completed is that of Summers, et al., (1976). Among the most important impacts of manufacturing job growth are:

> --population generally grows in the site community and is fueled by increased in-migration and decreased out-migration;
>
> --while the outflow of young adults is often not stemmed, new young adult in-migrants take their place;
>
> --most in-migrants move from no further than 50 miles,

but generally commute for a period before moving;

--a number of workers at the facility will commute from distances as far as 100 miles;

--most new jobs do not go to the local unemployed, underemployed, minority group members and persons at or below the poverty level, particularly if the new jobs are not low-wage or low-skilled jobs;

--anticipated benefits genrally exceed perceived benefits once development has taken place; and

--overall, evaluations of economic development in nonmetropolitan communities are positive.

Research also indicates that the per capita income of community residents is typically increased in nonmetropolitan communities as a result of industrialization. The distribution across different groups is not universally positive, however. Only a minority of poverty level workers get new jobs (USDA, 1972; Deaton and Landes, 1978); although when they do receive jobs, these residents tend to escape poverty status. This tendency is primarily a function of the greater opportunity for multiple-job holding, rather than higher wages in a primary job resulting from industrialization (Till, 1981). Furthermore, while overall income inequalities in the community tend to be reduced (Shaffer and Tweeten, 1974), some groups may actually be worse off in a relative sense after manufacturing job growth (Clemente and Summers, 1973).

Community fiscal impacts are also mixed. The hope that new industry will boost nonmetropolitan community tax revenues, thus holding the lid on taxes for homeowners, or possibly enhancing services, is rarely fully realized. Instead, the costs of industrialization to the community government(s) tend to be greater than expected. Summers et al. (1976) indicate that community fiscal resource base increases are often canceled by the rising costs of providing services to the industry and town. When net fiscal gains do accrue to the nonmetropolitan community, it usually occurs as a result of no subsidy being given to the industry, the preponderance of workers were hired locally, large proportions of the plant work force live outside of town and commute to work, or community services were substantially underutilized and thus inefficient.

One of the best analyses of the community fiscal impacts of manufacturing employment growth is Brinkman's (1973) study of Parsons, Kansas. After tracking the impacts of plants locating in Parsons during the 1960-1970 period, Brinkman found gains to local residents through increased personal income, as well as increased income to local merchants through sales for shopping and trade goods. Both the city government and the school district lost roughly $330,000 each, however, due to financial incentives given to the new industries. The result was a net overall loss to the public sector. The private sector, on the other hand, benefited through employment and income gains. The work of Shaffer and Tweeten (1974) produced similar findings. When coupled with the earlier information on the lower relative importance of financial inducements in business location decisions, the net loss to the public sector as a result of industrial growth is unfortunate and can reduce the overall effect of new job growth in communities.

Nonmetropolitan Economic Development Strategies

This paper began by noting a paradox of nonmetropolitan economic development -- growth rates in nonmetropolitan economic well-being are not exceeding growth rates in metropolitan well-being by the same margin as is the case for population and employment growth. Answers to this paradox were sought in selected aspects of the literature on economic development, particularly as it pertains to nonmetropolitan areas. Although additional sorting through is required, some strategy options are relatively clear. This section delineates what, at this first cut, appear to be the significant strategy implications. The focus is on locally controlled actions. Although state and federal governments have both leadership and supportive "niches" to fill in the nonmetropolitan economic development process, recent history indicates that local initiative and action will be most likely to lead to success. The relative weight to be placed on recruiting, as opposed to establishment retention or start-up efforts is also not addressed. Nor is the range of economic development goals, program options, organizational frameworks, and planning and targeting methods discussed. For an overview of important considerations for small communities in these areas see Gudell and Smith (1984).

In general, the paradox of the "lagging" nonmetropolitan economy appears to partly be a function of how modern economic institutions structure economic exchanges and growth, and partly a function of the nature of nonmetropolitan areas. While nonmetropolitan economic developers can't easily alter the behavior of multi-establishment corporations and metropolitan institutions, they can take steps to minimize the negative effects of such realities. Local action must be based upon a sound understanding of the broad forces and relationships enmeshing nonmetropolitan areas, as well as knowledge of how these interact with the dominant characteristics of nonmetropolitan economies, particularly their small size, lack of economic diversity, and the lack of agglomeration economies.

A primary reason for the lag in nonmetropolitan economic well-being would appear to lie in the employment, income and other "leakages" from nonmetropolitan communities undergoing economic development. Because of these leakages, development multiplier effects are dampened. While leakages are also a significant problem in metropolitan areas, this phenomenon appears to be more acute in nonmetropolitan communities. The smaller the economic area, the greater the leakages because of the lack of scale and agglomeration economies, as well as a general lack of diversity. This general susceptibility of nonmetropolitan communities to leakages of employment, income and other economic development multipliers is exacerbated by aspects of today's economy, most notably the multi-establishment corporation and the superior ability of metropolitan areas to utilize the spin-offs of economic development, thereby relegating nonmetropolitan areas to a dependency status.

Multi-establishment corporations enhance the leakage tendencies of small, nonmetropolitan economies by the fact that such business enterprises control a majority of U.S. manufacturing jobs and economic resources, and because they have job-control linkages through plants located in regions and towns outside the local area. Because these corporations control capital, labor and production; because these businesses have extensive oranizational networks to help in the production, marketing and distribution of goods and services; and because of the information, administrative and coordination needs of these enterprises, areas and cities outside a given locality where they operate will be relied upon. Employment, activity and economic investments at a given local site, then, will have multiplier effects elsewhere. As indicated earlier, this general tendency is enhanced in small, nonmetropolitan settings because of their economic scale and size.

Dependency perspectives of nonmetropolitan economic development provide additional insights into the complex process of leakage. Nonmetropolitan areas, this perspective argues, are not able to take advantage of the spin-offs of development. This is a function of the biases and power of metropolitan places, as well as the small size and lack of diversity and agglomeration economies in nonmetropolitan areas. The result is an increased rate of leakage, with metropolitan places accruing extensive benefits from economic activities located in nonmetropolitan areas. Nonmetropolitan economic growth and development is "underdeveloped," relative to that of metropolitan places, because of these dynamics.

Another likely cause of the lag in nonmetropolitan economic well-being lies in the continued use of financial incentives to spur development. Although the preponderance of the industry location literature indicates that financial incentives are rarely necessary to recruit a new manufacturing facility, the desire for industrial growth, knowledge that other communities are doing the same, and the tendency of business enterprises to take advantage of "something for nothing" fosters the continuation of such practices. While there is no evidence that nonmetropolitan locations utilize financial subsidies more than metropolitan communities, small, nonmetropolitan towns must make a greater level of effort to match large community or metropolitan bids for the same industry. This is a function of the smaller number of residents and existing businesses to allocate the costs to. When coupled with multiplier leakages, direct development subsidies in nonmetropolitan areas are likely to result in net public sector fiscal losses, further reducing personal income available for other uses.

Finally, economic development impacts may lag in nonmetropolitan areas because manufacturing activities locating in such places generally have not included the full range of production, managerial, professional and clerical workers found with manufacturing operations in metropolitan and urban locations. These patterns are a function of the location needs of multi-establishment corporations. The impact is such that the multiplier effects of industrial development are reduced.

Given these constraints upon nonmetropolitan economic development, what strategies might produce greater success? Among the most obvious strategies, three are particularly noteworthy. The first emphasizes the development of local economic linkages; the second emphasizes capitalizing on the spin-offs of economic development; and the third emphasizes the use of development financing techniques that minimize the use of direct subsidies drawing upon general tax dollars.

Maximizing Local Economic Linkages

Among the specific actions that can be taken to maximize the development of local linkages, thereby reducing the potentially negative effects of non-local linkages, are the following. First, nonmetropolitan communities can work to ensure that local enterprises -- both public and private -- purchase their production inputs locally, particularly from locally owned business and industry. While this option may be quite limited in the smallest communities, a large proportion of nonmetropolitan areas could take advantage of this. In many towns, the public sector is one of the largest, if not the largest, employers and purchasers of goods and services. Whenever possible, purchases should be made locally, thus maximizing the multiplier effect of the share of personal income going to support the public sector. Where size is a problem, the development of area or regional purchasing cooperatives which act as the "wholesaler" should be explored. Such cooperatives could provide a small number of jobs, but more importantly, can result in tax savings as a result of their greater buying scale. This can keep more income in the pockets of local residents for circulation in the local economy.

Local private business must also encourage local purchasing and explore the cooperative idea which has generally worked well for the agricultural sector. Fundamental to the success of this strategy is a vigorous effort to educate public and private sector consumers as to the nature, causes and consequences of economic linkages and the trade-offs between lower priced goods purchased and made outside the community, as opposed to purchases of possibly higher-priced goods from local suppliers or producers. Such a strategy will also require in many states some revamping of state regulations pertaining to purchasing and bidding. State governments must also reorient their purchasing to promote state businesses and producers, particularly businesses owned by state residents.

Nonmetropolitan communities can also work to develop agreements to purchase and hire locally if newly located or expanding manufacturing facilities receive development subsidies or assistance. Although this can scare some companies away, it need not if approached in a positive and sophisticated way. If phrased as "just good business" for the city, such a strategy can work to help maximize development impacts.

Another strategy which can enhance local linkages is to encourage the development of facilities to capitalize on the backward and forward linkage needs of existing and new production facilities. Branch plants typically are locked into purchasing inputs from company-identified sources. However, if the area has a comparative advantage for some input, this option should be explored. Likewise, if there are production by-products, or if the facility makes an intermediate product, the development of final product or by-product facilities should be examined. Such strategies will work best when facilities are locally owned, but sometimes detailed planning and proposals for additional local support facilities can overcome the built-in decision biases of multi-establishment corporations.

Local entrepreneurial skills must also be developed. One of the best uses of local development resources is to encourage existing local entrepreneurs, and to develop new ones. This might encompass encouraging small, fledgling business to expand, when feasible, as well as helping new business start-ups. Such enterprises are likely to be locally owned, have local ties and benefit the area through purchases and employment Again, some communities might say the options are limited; this is simply not accurate -- a new production facility of as few as 5 or 10 jobs can be a significant addition to the employment base of a town of 500 to 1,000 residents. Although new and small businesses are generally risky (e.g., short-lived, subject to production ups-and-downs, lower wages), they are locally rooted and will be likely to develop and maintain local linkages.

Capitalizing on Development Spin-Offs

Nonmetropolitan economic development efforts must also focus on capitalizing on economic development spin-offs. If this can be accomplished, the ability of metropolitan areas to profit at the expense of nonmetropolitan residents and communities will be reduced. One obvious strategy is to capitalize on one of the most extensive development resources of nonmetropolitan areas -- the land and its productive capacities. Many nonmetropolitan communities are located in the midst of agricultural land, equipment and facilities which are owned by local residents. Efforts should focus on industries, production processes and goods which draw upon the land and its local ownership. Farm operators could be linked with production facilities for many food goods. For example, mushroom farming is often vertically integrated, with a large corporation handling the development of the growing medium, as well as raising and processing the product. Why not have local farmers grow mushrooms in idle or little used farm buildings and sell them to a local processing operation? The success of such a venture would depend upon farmers' being efficient and selling at lower rates than would be found under the corporate model. While this might be viewed as taking advantage of farmers by some individuals, the family-farm literature indicates that farm operators want to produce food -- to farm. Low wage activities, whether they be new lines of food production such as mushroom farming, or whether they be off-farm jobs, can produce significant gains in the size and stability of net farm family income. Success in this strategy will require extensive work on the part of the land-grant system of extension centers and advisers to encourage farmers to diversify their production plans and to think of new ventures.

Related to this, nonmetropolitan communities in farming areas should capitalize on the availability of labor for jobs that might be considered by many locations as "marginal." Thus, low wage, low skill, seasonal facilities might be recruited to take advantage of a comparative advantage of rural, farming areas -- farm operators who are looking for a way to supplement their primary income. Such a strategy will also stabilize small, nonmetropolitan communities dependent upon the farming sector (Smith, 1985).

As noted earlier, attention should be given to local entrepreneurship, whether it be helping existing local enterprises to expand,. or helping new businesses to start up. Targeting local development resources upon these activities will be the most likely way to ensure that the "profits" of economic development are reinvested in the nonmetropolitan community. Rather than forcing local entrepreneurs to seek financing outside the area, give them assistance priority. Subsidize them, but structure the agreement so that some return (profit) is produced for a revolving loan fund, for example, through the return of the principal and some interest. Profit, then, can go into other development-related projects and activities.

The growing population of older adults in many nonmetropolitan communities provides another opportunity for capitalizing on development spin-offs. Although senior citizens do not generally work in so-called wage paying jobs, they do receive transfer payments from both private and public sources. This income enters the community, circulates, and buys the same goods and services as any other income. Facilities such as nursing and retirement homes, apartments, recreation and activity centers, and other programs can be targeted to enhance and retain this growing sector of the population, particularly in nonmetropolitan areas. While senior citizens present new service challenges, they provide much volunteer help for community activities, and they tend to consume many services at somewhat lower levels than younger individuals and families.

Minimizing Direct Public Subsidies of New Industry

Nonmetropolitan communities must also make every effort to identify the costs and benefits of economic development projects prior to committing public resources directly to such ventures. While the exact mix of costs and benefits will depend upon the specific goals and nature of a given location's economic development program, they must be examined. Assuming that any industrial development will produce both individual and community net fiscal gains is extremely risky. Furthermore, community fiscal losses can wipe out individual gains from industrial development. In this regard, communities must develop the capacity and procedures for evaluating development proposals, particularly when they call for public subsidies or assistance. Because local capacity is typically inadequate in nonmetropolitan areas, state government development agencies, university public service and research organizations and federal agencies such as USDA and HUD must provide technical assistance and capacity-building in these skills.

Most important, however, is that nonmetropolitan communities develop and make use of alternative mechanisms for financing economic development programs and facilities (when they are necessary to acquire a facility or ensure an expansion). Because the days of federal subsidies, loans, and public works monies for local development efforts are rapidly coming to a close, local communities will have to bear a larger burden of the costs of development. This makes it all the more important to cost out development projects. More important, efforts to minimize the size of direct dollar outlays must take precedence above other considerations since keeping public subsidies to a minimum can enhance the likelihood of multiplier effects adequate for net fiscal gains to communities and residents.

Particularly promising are lesser-used financing techniques such as tax increment financing and special service area financing, among others. Tax increment financing involves the adoption of a redevelopment plan for a specific geographical area, the "freezing" of equalized property taxes for the area at the level of the last tax year, and the pledging of tax increments resulting from new development in the area to projects on a pay-as-you-go basis, or to pay off tax anticipation notes or tax allocation bonds which permit the city to raise money prior to development. Tax increment financing, then, lets projects or project areas generate their own funding; direct public subsidies are minimized. Special service area financing represents another option for supporting nonmetropolitan economic development. Under this mechanism a municipality or county designates a local area to be a "special service area" to provide a localized "governmental service." Bonds may be issued to finance the project and are payable from taxes levied solely in that area. Typically, improvements and facilities must be owned by local governments. This mechanism is used to improve shopping districts, as well as industrial parks and improvements such as roads, utilities, and buildings. These represent just a few of the financing techniques which nonmetropolitan communities can utilize to minimize the fiscal risks and burdens of development. While there are liabilities associated with these techniques, the same is true for the more frequently used approaches, as well.

In conclusion, while the economic constraints upon nonmetropolitan areas are numerous and complex, they can be identified and sorted out. Economic developers, elected decision makers and interested residents must work to better understand the forces which affect nonmetropolitan economic development and growth processes. A firm grasp of the present will provide a better map for achieving future goals.

Footnotes

1. The author is currently identifying community and area case studies of metropolitan and nonmetropolitan economic development in an effort to conduct such an analysis.

2. This section draws upon my work which more broadly explores the development and influences of multi-establishment corporations. See, "Interdependencies in Urban Economic Development: The Role of Multi-Establishment Corporations," in D.R. Judd (ed), Public Policy Across States and Cities (New York: JAI Press, forthcoming, 1985).

3. There are a number of routes to achieving economic development goals. For an overview of economic development goals, strategy and organizational choices for small communities see, H. Gudell and R.L. Smith, "The Local Economic Development Process," in J.M. Banovetz (ed), Small Cities and Counties: A Guide to Managing Services (Washington, D.C.: International City Management Association, 1984).

4. Schmenner grouped two-digit manufacturing industries into nine broad categories. They are:

INDUSTRY GROUP	SIC CODE	INDUSTRY
Agriculture-Tied	201	Meat products
	203	Canned/preserved fruits and vegetables
	204	Grain mill products
	206	Sugar and confectionery products
	207	Fats and oils
	21X	Tobacco
Market-Sensitive	202	Dairy products
	205	Bakery products
	208	Beverages
	209	Miscellaneous food preparations
	264	Converted paper and paperboard
	265	Paperboard containers and boxes
	266	Building paper and building board mills
	27X	Printing
	295	Paving and roofing materials
	307	Plastics products
	341	Metal cans and shipping containers
	39X	Miscellaneous manufacturing (jewelry, silverware, musical instruments, toys, pens and pencils, brooms and brushes, sporting goods, signs, notions caskets)

Forest-Tied	24X	Lumber and wood products
	261	Pulp mills
	262	Paper mills
	263	Paperboard mills
Labor Rate-Sensitive	22X	Textile mill products
	23X	Apparel and other fabrics products
	25X	Furniture
	31X	Leather goods
	363	Household appliances
	364	Electric lighting and wiring
	365	Radio and TV receivers
Heavy Chemicals/Oil/ Rubber/Glass	281	Industrial inorganic chemicals
	282	Plastics materials and resins
	286	Industrial organic chemicals
	287	Agricultural chemicals
	291	Petroleum refining
	299	Miscellaneous petroleum and coal products
	301	Tires and inner tubes
	302	Rubber and plastics footwear
	303	Reclaimed rubber
	304	Rubber and plastics hose and belting
	306	Other fabricated rubber products
	32X	Stone, clay, glass, and concrete products
Specialty Chemicals/	283	Drugs Metals
	284	Soap, detergents, cosmetics, etc.
	285	
	289	Miscellaneous chemicals products (adhesives, inks, etc.)
	342	Cutlery, hand tools, and hardware
	347	Coating, engraving
	348	Ordnance
	349	Miscellaneous fabricated metals (springs, pipe fittings, foil)
Heavy Metals	33X	Primary metals
	343	Heating equipment and plumbing fixtures
	344	Fabricated structural metal products
	345	Screw machine products, bolts, nuts, etc.
	346	Metal forgings and stampings
Industrial Machinery/ Transportation Equipment	351	Engines and turbines
	352	Farm and garden machinery
	353	Construction, mining, and materials

		handling machinery
	354	Metalworking machinery
	355	Special industry machines (food, textile, lumber, paper, printing, etc.)
	356	General industrial machine (pumps, bearings compres etc.)
	358	Refrigeration and service industry machinery
	359	Miscellaneous machinery
	361	Electric transmission and distribution equipment
	362	Electrical industrial apparatus (motors, welding)
	369	Miscellaneous electrical machinery (batteries, etc.)
	371	Motor vehicles
	372	Aircraft
	373	Shipbuilding
	374	Railroad equipment
	375	Motorcycles and bicycles
	379	Miscellaneous transport equipment (trailers, tanks)
High Technology	357	Computers and office equipment
	366	Communication equipment
	367	Electronic components
	376	Guided missiles and space vehicles
	38X	Instruments (measuring, analyzing, controlling, photographic, medical, clocks)

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THE EFFECT OF SHOPPING CENTERS ON HOST TOWNS AND OUTLYING AREAS

BY

Kenneth E. Stone and James C. McConnon, Jr.*

BACKGROUND

Many people familiar with rural midwestern states have recognized that there has been a gradual change in the shopping habits of rural and small-town people over the last several years. This trend was documented in a study for the White House Conference on Small Business.[1] This study found that, on the average, the less populated counties in Iowa, Kansas, Missouri and Nebraska lost substantial amounts of retail trade in the 20 year period from 1958 to 1978. Conversely, the study found that most of the more densely populated counties gained significant amounts of retail trade during the same time period. Some of the reasons postulated for these changes in shopping habits were:

1) A continual outmigration of farmers from the rural areas reduced the economic base of less populated counties and towns, thereby causing many businesses to be no longer viable.

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[1] Kenneth E. Stone, An Analysis of the Outmigration of Retail Sales From the Region, prepared for the 1980 White House Conference on Small Business, Ames, Iowa, 1980.

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2) Improved transportation including reliable automobiles and highway system, provided easy access from rural to urban areas.

3) Large shopping centers (particularly enclosed malls) with their large selections, easy access and convenient opening hours proved to be attractive to rural customers.

This paper will attempt to more clearly define the effects that shopping centers have had on their host towns and outlying areas. Several sources are drawn upon to form the conclusions. These sources are:

1) A 1980 survey of merchants from shopping centers, downtowns and outlying smaller towns in six Iowa communities.

2) A 1981 econometric study of the effects of shopping centers and demographic variables on retail sales of Iowa counties.

3) A 1980 case study of the Burlington, Iowa area using primary and secondary data.

4) A 1981 case study of the Sioux City, Iowa area using primary and secondary data.

THE EFFECT ON HOST TOWNS

Host town merchants in direct competition with the mall suffered the greatest losses. Typically the hardest hit stores were general merchandise stores, apparel stores and specialty stores. In the 1980 survey of merchants, 66.7 percent of the general merchandise merchants felt that the mall had a negative impact on their businesses. Twenty-six percent of the apparel merchants and thirty-one percent of the specialty store merchants also felt the mall had negatively impacted their businesses.

A community survey in Sioux City, Iowa one year after a 600,000+ square foot mall opened, found more specific figures on mall patronage. The major areas where the mall captured trade from city residents are shown in Table 1.

Table 1. Major Areas Where Sioux City Mall Captured Local Trade From Existing Merchants

Area	Percent Capture
Children's Clothing	33.0%
Women's Clothing	27.4%
Men's Clothing	20.4%
Appliances	14.4%
Sports/Recreation Equipment	13.4%
Crafts/Hobbies	11.9%

Table 2 shows the results of a study of secondary data in the Burlington, Iowa area and illustrates the real losses in downtown Burlington for the first four years after a 425,000 square foot mall opened in West Burlington, a suburb one mile away.

Table 2. Major Area of Trade Leakage from Burlington, Iowa After Mall Opened in West Burlington

Area	Percent Leakage
General Merchandise	-59%
Apparel	-49%
Specialty Stores	-29%

Figure 1 gives a general idea of the effect of the West Burlington Mall on total retail sales for the city of Burlington. The solid black lines indicate actual total sales in constant dollars (deflated by Consumer Price Index, using 1971 as base year). The dashed lines indicate the 1971-1977 trend line for actual retail sales with an extension to 1981. It

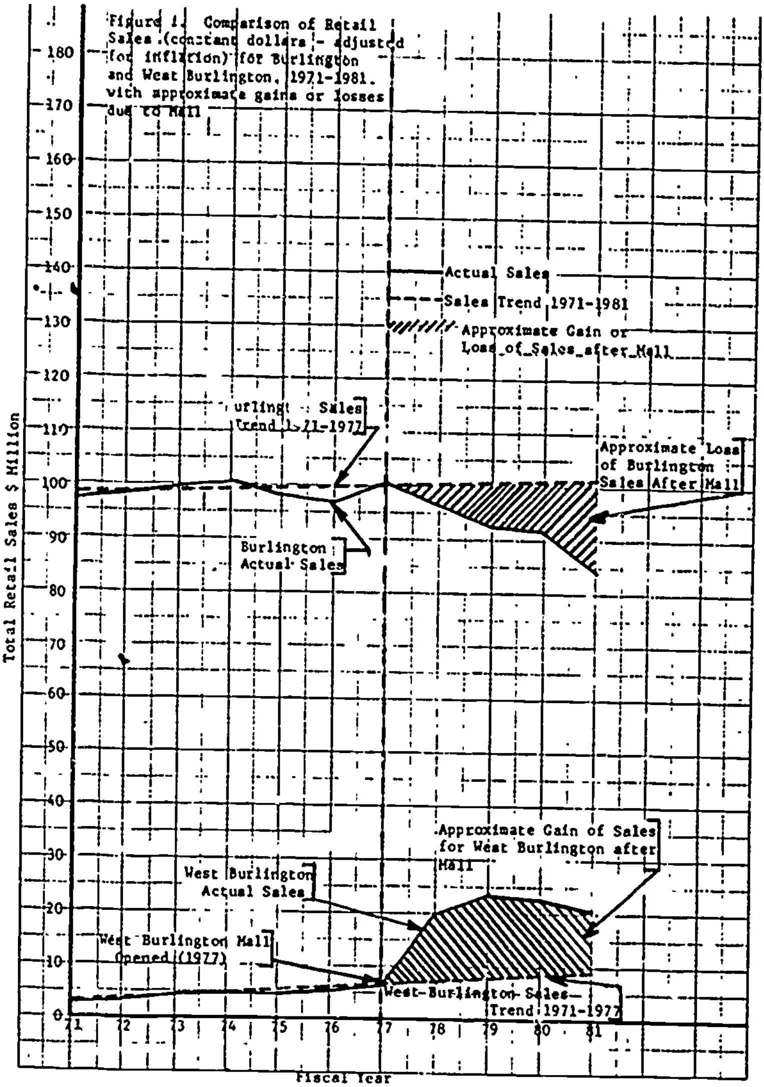
Figure 1. Comparison of Retail Sales (constant dollars - adjusted for inflation) for Burlington and West Burlington, 1971-1981, with approximate gains or losses due to Mall
Actual Sales
Sales Trend 1971-1981
Approximate Gain or Loss of Sales after Mall
Burlington Sales Trend 1971-1977
Approximate Loss of Burlington Sales After Mall
Burlington Actual Sales
Approximate Gain of Sales for West Burlington after Mall
West Burlington Actual Sales
West Burlington Mall Opened (1977)
West Burlington Sales Trend 1971-1977
Total Retail Sales $ Million
Fiscal Year

can be seen that Burlington's real sales fell dramatically below the trend line after the opening of the mall. Conversely, West Burlington's real sales rose dramatically above the trend line after the mall opening. Obviously, other variables such as the state of the economy may also have played a role in these results.

In Burlington, some merchandise groups made real gains in the four years after the nearby mall opened. They are shown in Table 3.

Table 3. Areas in Burlington that Showed Real Gains After Mall Opened

Area	Percent Real Gain
Building Materials and Hardware	+260%
Food (Groceries)	+77%
Eating and Drinking Places	+6%

This is sometimes referred to as the spillover effect. The mall expands the overall trade area for the metropolitan area. Some of the new customers drawn to the mall for shoppers goods then "spill over" to other parts of town to shop for other goods and services.

THE EFFECT ON OUTLYING AREAS

The effect of shopping malls on outlying areas appears to be much more severe than the effect on downtowns. The 1980 Survey of Merchants indicated a perception of broad based losses by merchants in outlying smaller towns. Table 4 is a summary from merchants in twenty-three smaller communities surrounding the six shopping center cities who felt the mall had a negative impact on their businesses.

Table 4. Composition of Merchants From Outlying Smaller Towns Who Felt that the Mall Negatively Impacted Their Businesses

Area	Percent Negatively Impacted
General Merchandise	46%
Specialty Stores	44%
Apparel Stores	40%
Food (Grocery) Stores	40%
Home Furnishings and Appliances	36%
Building Materials and Hardware	33%

A 1979 community survey in Fort Madison, a town of approximately 14,000 population only 17 miles from the West Burlington Mall was conducted to determine the trade captured by the mall. The results are shown in Table 5.

Table 5. West Burlington Mall's Trade Capture from Fort Madison (17 miles distant)

Area	Percent Capture
Children's Clothing	33%
Women's Clothing	31%
Men's Clothing	20%
Shoes	15%

A further analysis of secondary data indicated the impact of the West Burlington Mall on two adjacent county seat towns. The results are summarized in Figure 2. The solid lines show actual retail sales. The dashed lines show the 1971 to 1977 trend lines of actual sales and are extended to 1981. The patterns for Ft. Madison (14,000+ population and 17 miles distant) and Mt. Pleasant (7,000+ population and 22 miles distant) are very similar. Both county seat towns show a marked drop-off in real total sales from the trend line in the four years after the mall opened.

Analyses of the Sioux City outlying areas showed patterns similar to those in the Burlington Area Table 6 shows the change in total retail sales for Sioux City and the adjacent county seat towns for the first year of mall operation.

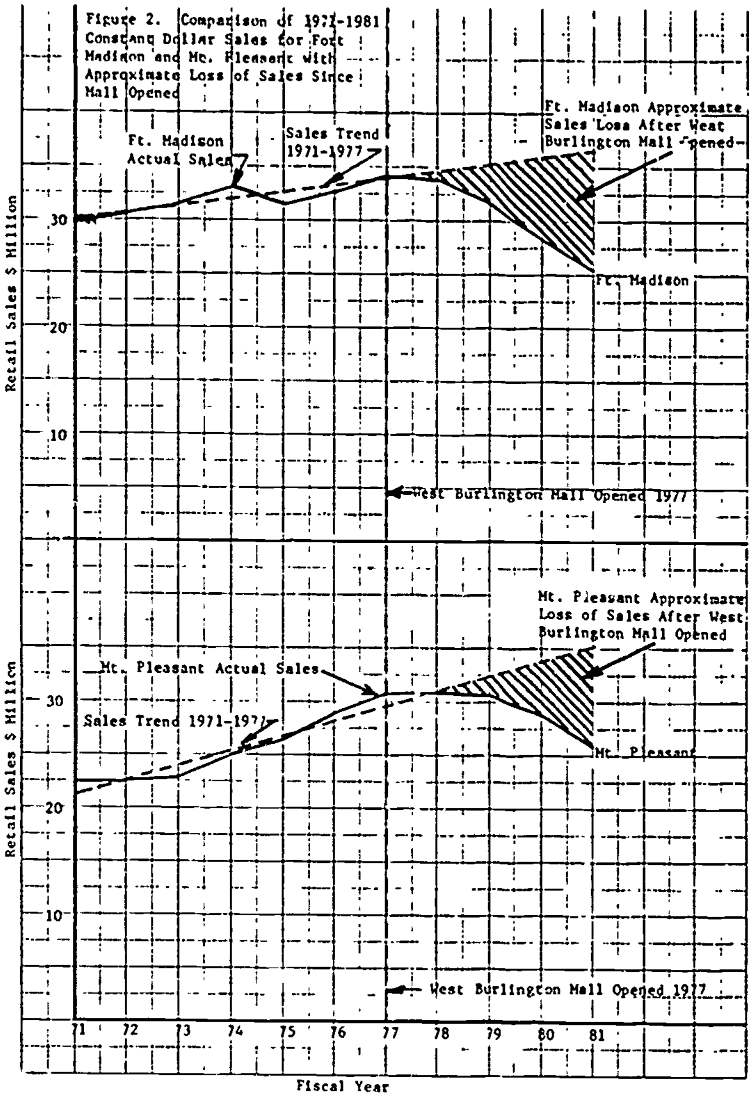
Figure 2. Comparison of 1971-1981 Constant Dollar Sales for Fort Madison and Mt. Pleasant with Approximate Loss of Sales Since Mall Opened
Ft. Madison Actual Sales
Sales Trend 1971-1977
Ft. Madison Approximate Sales Loss After West Burlington Mall Opened
Ft. Madison
West Burlington Mall Opened 1977
Mt. Pleasant Approximate Loss of Sales After West Burlington Mall Opened
Mt. Pleasant Actual Sales
Sales Trend 1971-1977
Mt. Pleasant
West Burlington Mall Opened 1977
Retail Sales $ Million
30
20
10
71
72
73
74
75
76
77
78
79
80
81
Fiscal Year

Table 6. Comparison of Sioux City 80 and 81 Retail Sales with those of Surrounding Towns

City	1980 Total Sales ($000)	1981 Total Sales ($000)	Change 80-81 ($000)	% Change (Nominal)	% Change (Real)
Sioux City	$548,800	$569,800	$+21,000	+3.8%	-6.0%
Cherokee	56,184	56,043	-141	---	-9.7
LeMars	57,374	56,387	-987	-1.7	-11.1
Ida Grove	27,772	26,216	-1,556	-5.6	-14.6
Onawa	28,218	26,510	-1,708	-6.1	-15.0

Perhaps a more revealing comparison comes from examining county sales for 1980 and 1981. The following data in Table 7 indicate the changes in county retail sales from 1980-1981.

Table 7 Comparison of Woodbury County 80 and 81 Retail Sales with those of Surrounding Counties

County	1980 Total Sales ($000)	1981 Total Sales ($000)	Change 80-81 ($000)	% Change (Nominal)	% Change (Real)
Woodbury	$594,253	$611,872	$+17,613	+3.0%	-6.8%
Plymouth	96,470	91,142	-5,328	-5.5	-14.5
Cherokee	79,824	77,343	-2,481	-3.1	-12.3
Monona	56,761	51,069	-5,692	-10.0	-18.6
Ida	42,423	39,781	-2,661	-6.3	-15.1

Woodbury County enjoyed a 3.0 percent increase in sales before inflation while the surrounding counties suffered losses of 3.1 percent to 10 percent. In real terms Monona County's real loss was 18.6 percent. It seems more than coincidental that the first downturn in retail sales in 10 years for these surrounding counties occured in the year that the mall opened in Sioux City.

Table 8 presents even more precisely the status of retail sales by county for 1980 and 1981. Potential sales are compared to actual sales to determine if the county had a "leakage" or a surplus. The potential sales calculation takes into consideration the county population, average state per capita expenditures on retail sales and the county relative income situation.

Potential Sales = County Population X Average State Experditure on Retail Sales X Average Per Capita County Income as a Percent of Average Per Capita State Income

Example: Woodbury County 1980 Potential Sales = 100,900 X 5,260 X 1.016 = $539,230,000

Table 8. Comparison of County Retail Sales Surplus or Leakage for 1980 and 1981

County	1980 Surplus or Leakage ($000)	1981 Surplus or Leakage ($000)	1980 Surplus or Leakage (%)	1981 Surplus or Leakage (%)
Woodbury	$+55,023	$+89,441	+10.2%	+17.1%
Plymouth	-14,208	-25,166	-12.8	-21.6
Cherokee	-4,280	-7,049	-5.1	-8.3
Monona	-10,258	-13,709	-15.3	-21.1
Ida	-20,401	-19,876	-32.5	-33.3

The key point here is that after adjusting for changes in population and income levels, Woodbury County increased its surplus from 10.2 percent to 17.1 percent while each of the surrounding counties suffered a higher percent leakage in 1981 than in 1980.

A 1981 Iowa State econometric study examined retail sales for every county in Iowa from 1976 to 1980. The effect of several variables on total retail sales were determined. These variables were:

1) County population
2) Median income of households in the county
3) Median age of county population
4) County unemployment rate
5) Population of the largest city in the county
6) Square feet of mall space within county

7) Square feet of mall space within a 25 mile radius of county seat, excluding that in county

8) Square feet of mall space within 25-50 mile radius of county seat

The effects of malls (items 6, 7 and 8) were of particular interest. All were statistically significant at the 95 percent level.

Effect of Mall on Resident County's Sales

The results showed that the presence of a mall, on the average, increased total county retail sales by approximately $74 per square foot of mall space in 1980. A rule of thumb for mall sales in 1980 was that approximately $100 in sales could be expected per square foot of mall space. If one assumes that mall sales were $100 per square foot, but that county sales increased by only $74 per square foot of mall space, then some other county businesses must have faced reduced sales because of the mall. For example, one would expect approximately $50 million annual sales from a 500,000 square foot mall and yet the study showed that a mall of that size would increase county sales by only $37 million The implication is that approximately $13 million in sales would be lost by other county merchants.

Effect of Mall on Adjacent County's Sales

The econometric study showed that approximately $5.50 per square foot of mall space was captured from adjacent counties (within a 25 mile radius) in 1980. In the case of a 500,000 square foot mall, approximately $2.75 million would be captured from an adjacent county. Assuming that, on the average, the equivalent of seven counties adjoin a shopping mall county, the total capture would be $19.25 million.

Effect of Mall on Retail Sales of Counties 25-50 Miles Away

The 1981 study showed that approximately $2 50 per square foot of mall space was pulled from "second tier" counties (those 25 to 50 miles from the mall) in 1980. A typical county in that category would lose approximately $1.25 million per year in retail sales to a 500,000 square foot mall. Assuming that the equivalent of eleven counties lay 25-50 miles distant, total capture by the mall would be approximately $13.75 million.

In summary, the econometric study showed that a 500,000 square foot mall, for example, would capture approximately $13 million from its resident county, $19-20 million from the "first tier" adjacent counties and $13 to 14 million from the "second tier" surrounding counties. It should be kept in mind that these results are averages. In fact, some surrounding counties would lose more than the average amount while others may fare better.

CONCLUSIONS

Based on the foregoing discussion and the studies cited, the following conclusions can be reached.

1) When a shopping center is introduced into a community, some host town merchants face reduced business because of increased shopping center competition. However, other merchants not directly competitive with shopping center stores, are helped because of the spillover of customers drawn to the center from an enlarged trade area. Those host town businesses in direct competition with mall stores, such as general merchandise, apparel and specialty, suffer the greatest losses.

2) In most cases, the introduction of a shopping center into a town or city increases the size of the trade area for the initial three to four years. After that period, a gradual decline in the size of the trade area seems to set in. Since shopping center sales usually remain relatively stable, the decrease in trade area size suggests that other stores in the area are being squeezed out.

3) Many businesses in outlying areas suffer losses of retail trade to the shopping center. These losses tend to be broader based than in the host town. It appears that when shoppers leave outlying areas to shop for shoppers goods in the shopping center, they may also purchase convenience goods and services that normally would have been purchased in the home town.

4) In most cases the retail "pie" for an area remains relatively constant in size (assuming population or economic activity does not change significantly). When a shopping center comes into a town or city, it captures a sizeable slice of the "pie". Consequently, the slices left for most host town merchants and outlying smaller town merchants, become smaller.

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ABSTRACT

The Effect of Shopping Centers on Host Towns and Outlying Areas

The results of several studies were analyzed to determine the impacts of shopping centers on host towns and outlying areas in Iowa. Competing businesses in host towns were hurt, while some non-competing businesses were helped. A broader range of businesses were hurt in outlying areas.

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Iowa State University of Science and Technology
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business management newsletter

July 1984

Retail sales trends in Iowa towns

Our research of the last few years has documented the migration of retail sales from rural counties to metropolitan counties throughout the Midwest. This newsletter focuses more directly on retail sales trends for Iowa's towns and cities.

Retail capture

Retail capture provides a good measure of a town's retail viability. Retail capture means the portion of the local retail trade potential that a town actually "captures". We have developed a way to measure a town's retail trade capture in terms of the town population. We call it "pull factor". A pull factor is calculated by dividing a town's per capita retail sales by the average state per capita sales. For example, if a town of 4,000 population had retail sales of $20 million, its per capita sales would be $20 million divided by 4,000, or $5,000 sales per person per year. If the average state per capita sales were $4,500 per year, the town's pull factor would be $5,000 ÷ $4,500 = 1.11. The interpretation of this pull factor is that based on its actual sales, the town is selling to 111 percent of the town population, in full-time customer equivalents. In other words, the town is selling to the equivalent of 100 percent of the town population plus another 11 percent more. The pull factor is a reliable indicator of the relative size of trade areas for most towns. However, it sometimes gives false impressions in small towns with dominant businesses. For example, some small towns may have one very large farm implement dealer and very few other stores. When the pull factor is computed it may appear that the whole town is doing very well, when in fact it is only the farm implement dealer that is doing well. Other dominant businesses that tend to bias small-town pull factors are multi-county rural electric headquarters, construction materials quarries, factories that sell direct to consumers, and major tourist attractions.

Pull factor trends

Table 1 shows the average change in pull factors for several population groups between 1969 and 1982. Note the rapid decline in average pull factors for towns below 2,000 population. In 1982, most of these towns were selling to less than 100 percent of the town population.

Among larger towns, the greatest percent decline was experienced in the 4,000-4,999 population group where the average pull factor dropped from 140 to 131, a decline of 6.8 percent. The second largest decline was in the 20,000-39,999

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Table 1 Change in retail pull factors for different size Iowa towns, 1969-1982

Population group	Average Pull Factor 1969	1982	% Change
0-499(n=260)	87%*	71%	-18.4%
500-699(n=84)	89	76	-14.7
700-899(n=71)	101	79	-21.9
900-999(n=29)	107	84	-22.0
1,000-1,499(n=84)	107	90	-15.9
1,500-1,999(n=41)	119	105	-11.7
2,000-2,499(n=28)	121	117	-3.3
2,500-2,999(n=10)	147	143	-2.3
3,000-3,999(n=12)	150	155	3.1
4,000-4,999(n=14)	140	131	-6.8
5,000-6,499(n=10)	151	151	0.0
6,500-7,999(n=12)	148	143	-3.6
8,000-8,999 (n=9)	129	131	1.6
9,000-19,999(n=7)	143	145	1.6
20,000-39,999(n=7)	135	128	-4.9
40,000 + (n=6)	149	150	1.0

* from 1976 instead of 1969

Definition: A pull factor represents the retail vitality or trade area size for a town. It is based on actual sales and indicates what percent of the town population these sales are serving. For example, a town with a pull factor of 107 is selling to the equivalent of the town population (100 percent) plus 7 percent more.

population group which fell 4.9 percent from 135 to 128.

The greatest percentage gains were made by towns in the 3,000-3,999 population group where pull factors expanded 3.1 percent from 150 to 155. Three other population groups experienced modest gains of less than two percent.

The actual year-to-year changes in pull factors can be seen more precisely in Figures 1 and 2. A very orderly progression in pull factor strength from the smallest towns up to towns of 4,000 population can be seen in Figure 1. In other words, the retail pulling power of towns increases as the towns get larger.

Figure 1 Average retail pulling power of Iowa's smaller towns, 1969-1982

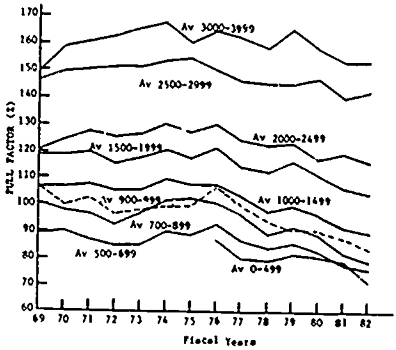
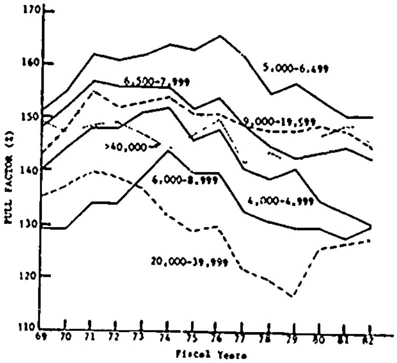


Figure 2 Average retail pulling power of Iowa's larger towns, 1969-1982



In Figure 2 we see that retail pulling power is not so predictable for towns over 4,000 population. Towns in the 5,000-6,499 population group have been the best retail performers, but are trending sharply downward in recent years. Conversely the largest cities (those over 40,000 population) are trending sharply upward and appear to be poised to soon take the lead. Conversely, the poorest performing retail towns shown in Figure 2 are in the 20,000- 39,999 population group, but they too appear to be experiencing a sharp upward trend during the last three years.

The excellent towns

At the risk of being accused of omissions or errors, the top few retail towns for each population group are shown in Table 2. These rankings are based on the highest pulling power at the end of fiscal year 1982. Keep in mind that there is a tendency for bias in smaller towns because of dominant businesses.

The growing towns

Another useful measure of retail vitality is the rate at which a town's pulling power is increasing. Table 3 lists the top few towns with the fastest growing retail sectors in each population group. Note that some of these towns don't have large retail pull factors, but have had good growth from 1969-1982. The stellar performers are the towns that are at the top of the list in both Table 2 and Table 3.

The rural businesses

Alert readers have probably wondered why there are so many population groups that are experiencing shrinking retail sectors, while so few are showing gains. After all, shouldn't the total gains equal the total losses? The answer is yes, total gains do equal total losses, but the largest gainers have been in so-called rural areas. In other words, there have been sharp gains in retail sales for businesses located far enough outside towns to be considered rural. However, on closer inspection, one sees that the bulk of these gains have been made by businesses outside metropolitan areas or in high-traffic tourist areas.

Table 2. Iowa's strongest retail towns in 1982

Population Group	Town	1982 Pull Factor
0-499	Woolstock	358%
	Vincent	327
	Melvin	252
	Hanlontown	247
500-699	Okoboji	275
	Keystone	211
	Clermont	207
700-899	Adair	254
	Sully	239
	Hubbard	203
900-999	West Bend	144
	North English	134
	Grand Junction	133
	Newell	133
1,000-1,499	Postville	222
	Allison	211
	Jewell	185
1,500-1,999	Elkader	247
	Kalona	182
	Avoca	174
	Guthrie Center	173
2,000-2,499	Wilton	212
	Ida Grove	206
	Greenfield	199
2,500-2,999	Audubon	173
	Grundy Center	173
	Clarion	168
3,000-3,999	Dyersville	186
	Osceola	182
	Monticello	179
4,000-4,999	Humboldt	193
	Manchester	187
	Hampton	179
5,000-6,499	Algona	250
	Harlan	170
6,500-7,999	Washington	170
	Atlantic	161
8,000-8,999	Storm Lake	173
	Waverly	142
9,000-19,999	Spencer	182
	Carroll	175
20,000-39,999	Fort Dodge	149
	Mason City	146
40,000 +	Des Moines	204
	Cedar Rapids	163

Table 3 Iowa's fastest growing retail towns, 1969-1982

Population Group	Town	1969 Pull Factor	1982 Pull Factor	% Change
0-500*	Onslow	22%	61%	177%
	Vincent	128	327	155
	Waucoma	32	72	125
501-700	Greeley	25	55	120
	Clermont	102	207	103
	Ventura	33	56	70
701-900	Richland	127	178	40
	Sully	150	239	59
	Adair	171	254	49
901-1,000	Stratford	91	122	34
	Le Grand**	20	34	70
	Newell	107	133	24
1,001-1,500	Princeton	59	72	22
	Blue Grass	23	52	126
	Panora	69	12	62
1,501-2,000	Aplington	94	135	44
	Huxley**	33	46	39
	Durant	94	120	28
2,001-2,500	Grimes	49	61	24
	Sergeant Bluff	26	40	54
	Colfax	122	169	39
2,500-2,999	Toledo	136	184	35
	Tama	115	158	37
3,000-3,999	Grundy Center	149	173	16
	Missouri Valley	118	138	17
4,000-4,999	Cresco	152	175	15
	Sioux Center	105	127	21
5,000-6,499	Manchester	168	187	11
	Algona	177	250	41
6,500-7,999	Sheldon	136	157	15
	Clear Lake	105	116	10
8,000-8,999	Estherville	123	133	6
	Grinnell	111	136	23
9,000-19,999	Waverly	123	142	15
	Keokuk	121	140	16
20,000 39,999	Carroll	161	175	9
	Muscatine***	109	119	9
40,000 +	Cedar Rapids	149	163	9
	Des Moines	194	204	5
	Dubuque	115	121	5

* 1976-1982
** 1972-1982
*** All other towns in this group showed a decline in pull factor.

It is difficult to compare current rural retail sales to those of years prior to 1972. However, in 1972 there were 7,660 rural businesses and they made up 9.1 percent of the total businesses in the state. By 1982 there were 13,077 rural businesses and they constituted 13.9 percent of the state's total businesses.

The total taxable retail sales of rural businesses in 1972 were $221 million or 3.47 percent of the state's total taxable sales. By 1982 rural business sales were $709 million or 5.29 percent of total state sales. Although this may not seem spectacular, it represents a 52.4 percent increase in portion of total state sales, a far greater gain than any of the population groups.

Sales in perspective

How much do the different size towns contribute to total state retail sales? Table 4, derived from the 1982 Retail Sales and Use Tax Report, illustrates the impact of the state's largest cities on retail sales.

Nearly half the taxable retail sales in the state occur in cities of 25,000 population and larger. Stated another way, the sales in the seven cities over 50,000 population are nearly equal to the sales in all towns below 10,000 population in the state.

Yet, in my opinion, there are marketing opportunities in nearly all Iowa towns. However, the local merchants often don't recognize these needs. A case in point was the need for convenience food stores in small towns. This represented a marketing opportunity for local entrepreneurs, but a few regional chains took the initiative and moved quickly to dominate the market. Similar strategies are being implemented by regional and national chains in areas such as fast food, building materials and services. The trick is for town residents to recognize these opportunities and to encourage local entrepreneurs to take advantage of them.

Table 4 Taxable retail sales by population group, fiscal year 1982

Population group (cities and towns)	Taxable sales* (billions)	% of total taxable sales
50,000 and over	$4.89	36.48%
25,000 to 50,000	1.73	12.88
10,000 to 25,000	[illegible].03	7.68
5,000 to 10,000	1.69	12.59
2,500 to 5,000	1.14	8.49
1,000 to 2,500	1.15	8.59
500 to 1,000	0.64	4.75
towns under 500	0.37	2.73
Rural	0.71	5.29
Non-permit	0.02	0.16
Others	0.05	0.35
TOTAL	13.42	100.00

* Does not include exempted food and drugs

Conclusions

The hundreds of Iowa towns below 2,000 population have suffered the most severe losses in retail pulling power over the last 13 years. In fact, the vast majority of these towns do not even meet the retail needs of the town population. For towns above 2,000 population, about half the population groups have experienced slight gains in retail pulling power while half experienced slight losses.

However, the greatest gains have been made primarily by individual businesses outside metropolitan areas or in the vicinity of high-traffic tourist areas

Despite the average pull factors described above, there are outstanding retail towns in all population groups. This points up an important principle. There are marketing opportunities in virtually all towns. But, only a few towns have the right combination of leadership, merchant cooperation, and capital to take advantage of these opportunities.

AN ANALYSIS OF THE OUTMIGRATION OF RETAIL SALES FROM RURAL AREAS OF THE REGION

Kenneth E. Stone
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This study examined retail sales for Iowa, Kansas, Missouri and Nebraska for the years 1958, 1967 and 1977. Potential sales for each county in each state were calculated using county population, state per capita retail sales expenditures and relative income. Potential sales were compared to actual sales to determine if a county had a leakage or a surplus.

RESULTS

Counties were classified into six groups according to the size of the largest town in the county. Average leakages or surpluses were then calculated for each group. The findings for each group were compared over the 20-year study period to determine trends.

OVERVIEW OF REGIONAL RETAIL SALES

In general it was found that areas with smaller towns have been losing retail trade and areas with larger cities have been gaining retail trade. However, there were some exceptions to this that will later be discussed in detail.

It was further found that areas close to metropolitan centers tended to lose more trade over time. Conversely, it was found that remote areas tended to hold their own or gain in retail sales.

Total Retail Sales

Total retail sales in current dollars for the four-state Region VII were as shown in Table 1. Also shown are total retail sales in constant dollars (1958 = base year). The Consumer Price Index was used as the deflator.

Population

Population changes for the states over the last 20 years are shown in Table 2.

Per Capita Retail Sales

Per capita retail sales were obtained by dividing total sales by state population. Table 3 shows per capita retail sales for Region VII states for 1958, 1967 and 1977 in current dollars and constant dollars.

Table 1
TOTAL RETAIL SALES FOR REGION VII STATES FOR
SELECTED YEARS IN CURRENT DOLLARS AND CONSTANT DOLLARS

State		Year			% Change
		1958	1967 (Thousand Dollars)	1977	1958-1977
Iowa	(Current $)	$3,668,000	$5,529,000	$9,166,000	150%
	(1958 $)	3,668,000	4,787,000	4,373,000	19
Kansas	(Current $)	2,685,000	3,793,000	7,250,000	170
	(1958 $)	2,685,000	3,284,000	3,459,000	29
Missouri	(Current $)	5,895,000	7,240,000	15,834,000	169
	(1958 $)	5,895,000	6,268,000	7,554,000	28
Nebraska	(Current $)	1,933,000	2,885,000	4,755,000	146
	(1958 $)	1,933,000	2,498,000	2,269,000	17

Table 2
POPULATION CHANGES FOR REGION VII
STATES, 1958-1977

State	Year			% Change
	1958	1967 (Thousand People)	1977	1958-1977
Iowa	2,747.3	2,813.5	2,925.9	6.5%
Kansas	2,153.6	2,293.0	2,339.3	8.6
Missouri	4,310.5	4,567.5	4,807.3	11.4
Nebraska	1,433.4	1,488.6	1,578.6	10.1

ANALYSIS WITHIN THE STATES

Counties in each state were classified according to the size of the largest city in the county as follows.

Table 3
PER CAPITA RETAIL SALES FOR REGION VII STATES FOR SELECTED YEARS IN CURRENT DOLLARS AND CONSTANT DOLLARS

State		Year			% Change
		1958	1967 (Dollars)	1977	1958-1977
Iowa	(Current $)	$1,335	$1,965	$3,133	135%
	(1958 $)	1,335	1,701	1,495	12
Kansas	(Current $)	1,247	1,654	3,099	149
	(1958 $)	1,247	1,432	1,479	19
Missouri	(Current $)	1,368	1,585	3,297	141
	(1958 $)	1,368	1,372	1,573	15
Nebraska	(Current $)	1,349	1,938	3.012	123
	(1958 $)	1,349	1,678	1,437	7

County Classification	Population of Largest City
1. Rural	Less than 2,500
2. Small Semirural	2,500-4,999
3. Large Semirural	5,000-9,999
4. Semimetro	10,000-49,999
5. Metro	50,000-149,999
6. Large Metro	150,000+

Potential sales for each county were then calculated by multiplying county population by state per capita retail sales and multiplying this product by county index of income (see Methodology section for details). County actual retail sales were compared to potential sales to determine if the county had a leakage (-) or a surplus (+) of retail trade. The surplus or leakage was expressed both in dollars and as a percent of potential sales.

Iowa

Table 4 presents the average leakages or surpluses in current dollars for the six county classes for 1958 and 1977. Figure 1 shows the 1958 and 1977 surpluses or leakages in terms of percent of potential sales.

The 21 rural counties had an average leakage of $903,000 (5.5%) in 1958. By 1977 this had grown to $5,389,000 (15.6%) or $2,571,000 in 1958 dollars, a -10.1 percent change.

Table 4
IOWA AVERAGE RETAIL SALES LEAKAGES OR SURPLUSES FOR 1958 AND 1977, BY COUNTY CLASSIFICATION-CURRENT DOLLARS

County Classification	No. of Counties	Average Leakage ( ) or Surplus	
		1958	1977
Rural	21	$(903,000)	$(5,389,000)
Small Semirural	28	754,000	(4,228,000)
Large Semirural	29	455,000	(4,693,000)
Semimetro	14	(655,000)	2,467,000
Metro	6	(4,851,000)	24,783,000
Large metro	1	23,070,000	163,377,000
	99		

The 28 small semirural counties went from an average surplus of $754,000 (4.0%) in 1958 to a leakage of $4,228,000 (9.4%) in 1977, a -13.4 percent change. The 1977 leakage, adjusted for inflation, was $2,017,000.

Large semirural counties (N=29) also went from an average surplus in 1958 to a deficit in 1977. In 1958 the surplus was $455,000 (1.9%) and 1977 leakage was $4,693,000 (7.8%), a -9.7 percent change. Constant dollar leakage in 1977 was $2,239,000.

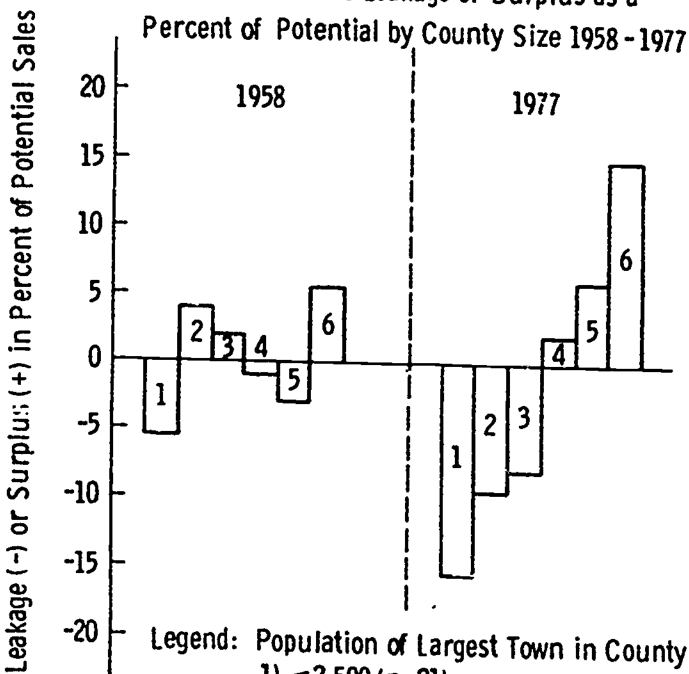
Semimetro counties (N=14) averaged a leakage of $665,000 (1.2%) in 1958. This improved to an average surplus of $2,467,000 (1.8%) in 1977, a change of +3.0 percent. The 1977 surplus, adjusted for inflation, was equal to $1,177,000 in 1958 dollars.

For the six metro counties in Iowa an average leakage of $4,851,000 (3.2%) was experienced in 1958 By 1977 the situation had changed to an average surplus of $24,783,000 (6.2%), a +9.4 percent change. In real terms this was equivalent to $11,824,000 in 1958 dollars.

Iowa has only one county classified as large metro. That is Polk County (Des Moines) and it recorded a surplus of $23,070,000 (5.6%) in

Figure 1

Iowa Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958 - 1977



Legend: Population of Largest Town in County

1) <2,500 (n=21)
2) 2,500 - 4,999 (n=28)
3) 5,000 - 9,999 (n=29)
4) 10,000 - 49,999 (n=14)
5) 50,000 - 149,999 (n=6)
6) >149,999 (n=1)

1958. This grew to $163,377,000 (14.8%) in 1977, or $77,947,000 in real terms, a 9.2 percent increase.

Kansas

Table 5 presents the 1958 and 1977 leakages and surpluses for Kansas counties in current dollars. Figure 2 shows the 1958 and 1977 surpluses and leakages in terms of percent of potential sales.

The 48 rural counties in Kansas averaged leakages of $345,000 (4.8%) in 1958. By 1977 the leakages increased to $1,757,000 (11.2%) a change of -6.4 percent in current dollars. The 1977 leakage in terms of 1958 dollars was $833,000.

The 23 small semirural counties averaged surpluses of $833,000 (6.7%) in 1958. In 1977 this had reversed to a leakage of $2,121,000 (7.1%), a 13.8 percent decrease. When adjusted for inflation, the 1977 deficit was $1,012,000.

There are nine large semirural counties in Kansas. They experienced average retail sales surpluses of $3,385,000 (14.9%) in 1958. That grew to a $6,308,000 (12.6%) surplus in 1977. However, when adjusted for inflation, the 1977 surplus was $3,010,000, a slight decrease (2.3%) from 1958.

The 22 semimetro counties in Kansas averaged leakages of $1,667,000 (3.7%) in 1958. That changed to a $928,000 surplus (0.6%) in 1977, an increase of 4.3 percent. In constant 1958 dollars, the 1977 surplus was $443,000.

There is only one metro county in Kansas, and its trade surplus in 1958 was $8,016,000 (4.4%). This county experienced an increase to $43,774,000 (8.9%) in 1977, a +4.5 percent change. In real 1958 terms this was $20,885,000.

The two large metro counties in Kansas experienced average leakages of $1,964,000 (0.6%) in 1958. These two counties also experienced changes to average surpluses of $50,855,000 (6.0%) by 1977, a 6.6 percent increase. This was $24,263,000 in 1958 constant dollars.

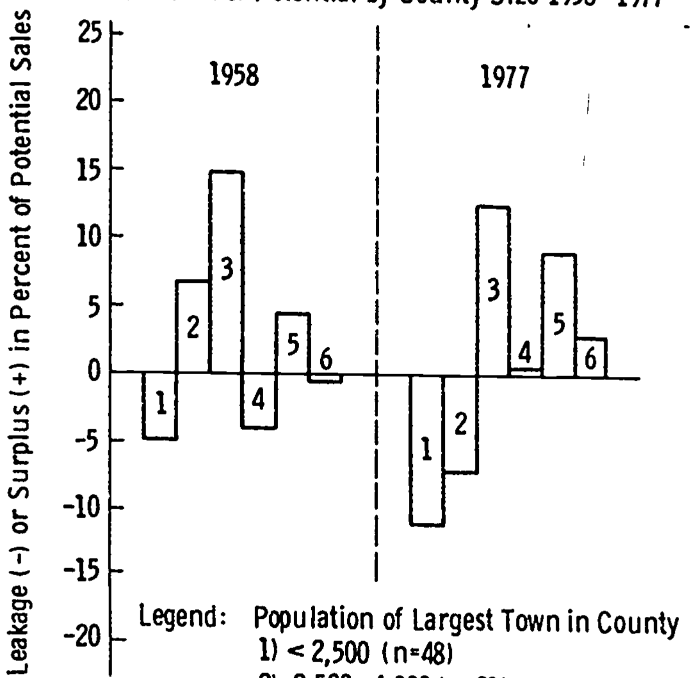
Table 5

KANSAS AVERAGE RETAIL SALES LEAKAGES OR SURPLUSES FOR 1958 AND 1977, BY COUNTY CLASSIFICATION-CURRENT DOLLARS

County Classification	No. of Counties	Average Leakage ( ) or Surplus 1958	1977
Rural	48	$(345,000)	$(1,757,000)
Small Semirural	23	833,000	(2,121,000)
Large Semirural	9	3,385,000	6,308,000
Semimetro	22	(1,667,000)	928,000
Metro	1	8,016,000	43,774,000
Large Metro	2	(1,964,000)	50,855,000
	105		

Figure 2

Kansas Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958-1977



Legend: Population of Largest Town in County
1) < 2,500 (n=48)
2) 2,500-4,999 (n=23)
3) 5,000-9,999 (n=9)
4) 10,000-49,999 (n=22)
5) 50,000-149,999 (n=1)
6) >149,999 (n=2)

Missouri

Figure 3 and Table 6 present 1958 and 1977 leakages and surpluses for Missouri in terms of current dollars and percent of potential, respectively.

The 50 rural Missouri counties averaged leakages of $23,000 in 1958. This declined to current dollar leakages of $4,207,000 in 1977. Corrected for inflation, the 1977 leakages were $2,007,000. In terms of percent of potential, the leakages went from 0.2 percent in 1958 to 15.0 percent in 1977, a -14.8 percent change.

For the 23 small semirural counties, the average leakage was $2,270,000, and this further declined to current dollar leakages of $9,917,000 in 1977. Adjusted to 1958 dollars, the 1977 leakage was $4,732,000. The percentage leakage in 1958 was 13.8 percent and declined to 21.5 percent in 1977, a -7.7 percent change.

Table 6
MISSOURI AVERAGE RETAIL SALES LEAKAGES OR SURPLUSES
FOR 1958 AND 1977, BY COUNTY CLASSIFICATION-CURRENT DOLLARS

County Classification	No. of Counties	Average Leakage ( ) or Surplus	
		1958	1977
Rural	50	$(23,000)	$(4,207,000)
Small Semirural	23	(2,270,000)	(9,917,000)
Large Semirural	19	(1,304,000)	(19,161,000)
Semimetro	17	2,922,000	(4,530,000)
Metro	3	1,736,000	37,844,000
Large metro	2	9,103,000	368,068,000
	115		

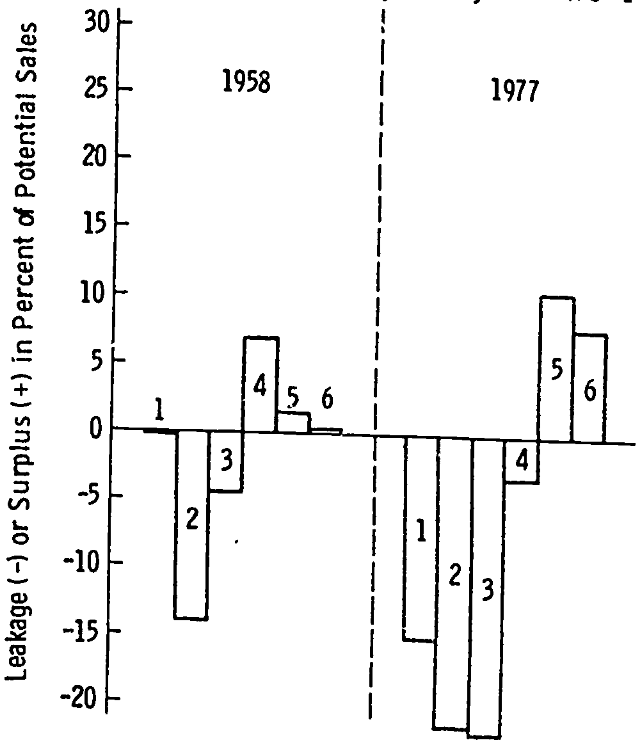
The 19 large semirural counties experienced average leakages of $1,304,000 in 1958. By 1977 that had increased to $19,161,000 in current dollars or $9,142,000 in constant 1958 dollars. The 1958 leakage amounted to 4.6 percent and the 1977 leakage was 22.6 percent, a -17.6 percent change.

The 17 semimetro counties in Missouri went from a $2,922,000 average surplus in 1958 to a $4,530,000 average leakage in 1977. In 1958 constant dollars, the 1977 leakage was $2,161,000. In terms of percent, these counties showed average surpluses of 6.8 percent in 1958 and 3.1 percent leakages in 1977, a -9.9 percent change.

Missouri has three metro counties that averaged retail trade surpluses of $1,736,000 (1.4%) in 1958. In 1977 the surpluses averaged $37,844,000 (10.6%), an improvement of 9.2 percent. The 1977 surplus adjusted for inflation was $18,055,000.

Figure 3

Missouri Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958 - 1977



Legend: Population of Largest Town in County

1) <2,500 (n=50)
2) 2,500 - 4,999 (n=23)
3) 5,000 - 9,999 (n=19)
4) 10,000 - 49,999 (n=17)
5) 50,000 - 149,999 (n=3)
6) >149,999 (n=3)

The two large metro counties in Missouri (St. Louis and Kansas City) averaged trade surpluses of $9,103,000 in 1958 (0.05%). The surplus increased to $368,068,000 (8.8%) in 1977. The 1977 amount adjusted for i' lation is $175,605,000 and represents an 8.75 percent improvement over 1958.

Nebraska

Table 7 and Figure 4 show Nebraska retail surpluses and leakages by county in dollars and percentages for 1958 and 1977. Nebraska has 52 rural counties that averaged $632,000 (9.5%) leakages in 1958. The leakages increased to $2,802,000 (21.6%) in 1977, a -12.1 percent change. The 1977 leakage adjusted for inflation was $1,337,000.

Table 7
NEBRASKA AVERAGE RETAIL SALES LEAKAGES OR SURPLUSES
FOR 1958 AND 1977, BY COUNTY CLASSIFICATION-CURRENT DOLLARS

County Classification	No. of Counties	Average Leakage ( ) or Surplus	
		1958	1977
Rural	52	$(632,000)	$(2,802,000)
Small Semirural	11	649,000	(1,625,000)
Large Semirural	19	(1,400,000)	2,493,000
Semimetro	9	5,202,000	23,478,000
Metro	0	--	--
Large Metro	2	10,538,000	11,262,000
	93		

The 11 Nebraska small semirural counties had retail trade leakages averaging $647,000 (4.5%) in 1958. Leakages increased to $1,625,000 (5.3%) in 1977, a change of -0.8 percent. The 1977 leakage in 1958 dollars was $775,000.

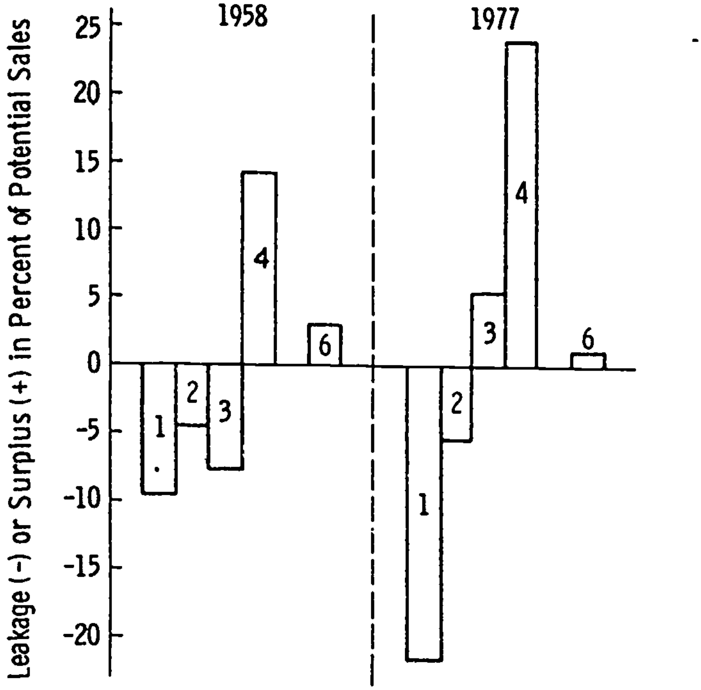
There are 19 large semirural counties in Nebraska and they had average retail sales leakages of $1,400,000 (7.7%) in 1958. Sales improved to an average of $2,493,000 surplus (5.4%) in 1977, a +13.1 percent change. Constant dollar surplus in 1977 was $1,189,000.

The nine semimetro counties in Nebraska showed surpluses of $5,202,000 (13.6%) in 1958. The surpluses widened to $23,478,000 (24.1%) in 1977, a +10.5 percent change. The 1977 constant dollar surplus was $11,201,000.

There are no Nebraska counties in the metro classification. However, there are two large metro counties, Douglas and Lancaster, whose major cities are Omaha and Lincoln, respectively. On the average these two counties enjoyed retail trade surpluses of $10,538,000 (2.9%) in 1958. However, the average surplus increased to only $11,262,000

Figure 4

Nebraska Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958-1977



Legend: Population of Largest Town in County
1) <2,500 (n=52)
2) 2,500-4,999 (n=11)
3) 5,000-9,999 (n=19)
4) 10,000-49,999 (n=9)
5) 50,000-149,999 (n=0)
6) >149,999 (n=3)

(1.1%) in current dollars in 1977, a net decrease of 1.8 percent. The 1977 surplus in constant dollars was $5,373,000.

Migration By Merchandise Group

An analysis by merchandise group is a massive undertaking and was outside the scope of this study. However, a 1978 study using State of Iowa retail sales tax data gives an indication of the nature of retail sales migration for various types of goods and services.[1]

Table 8 indicates that rural counties have surpluses of trade in the farm oriented merchandise groups of building materials and wholesale (farm machinery is the largest component). Rural counties experienced their greatest leakages in general merchandise, food, apparel, home furnishings and services; while these were the greatest surplus areas for metropolitan counties.

Table 8
1978 IOWA RETAIL SALES LEAKAGES ( ) OR SURPLUSES BY COUNTY CLASSIFICATION BY MERCHANDISE GROUP

Merchandise Group	Population Group					
	1 Rural	2 Small Semirural	3 Large Semirural	4 Semi-Metro	5 Metro	6 Large Metro
	(percent of potential)					
Building Materials	12.1	9.8	1.2	(8.9)	(6.9)	9.3
General Merchandise	(81.1)	(76.0)	(39.2)	17.5	42.3	53.6
Food	(36.8)	(53.4)	(6.1)	6.2	2.7	23.8
Apparel	(40.2)	(38.2)	(22.7)	13.5	3.6	35.9
Home Furnishings	(38.6)	(32.1)	(24.3)	11.6	25.7	31.2
Eating and Drinking	(19.6)	(29.3)	(21.5)	13.6	12.7	18.0
Specialty	(33.1)	(16.8)	(2.2)	5.7	26.6	24.9
Wholesale*	16.9	24.0	6.2	(30.0)	(8.3)	21.5

*Includes farm machinery and items sold to consumers by wholesalers

Importance Of Geographic Location

Figures 5, 6, 7 and 8 show the retail trade surpluses and leakages by county for Iowa, Kansas, Missouri and Nebraska, respectively. A 1958 map and a 1977 map are shown for each state, to illustrate the changes in the relative positions of county retail sales. As was previously noted, most of the metropolitan areas have experienced real gains in retail sales over the 20 year period. Additionally, some of the more remote rural counties experienced real gains in retail sales, pointing out that there are definite limits to how far people will drive to shop.

Figure 5

Iowa Retail Trade Surpluses and Leakages by County for 1958 and 1977

(% of Potential)

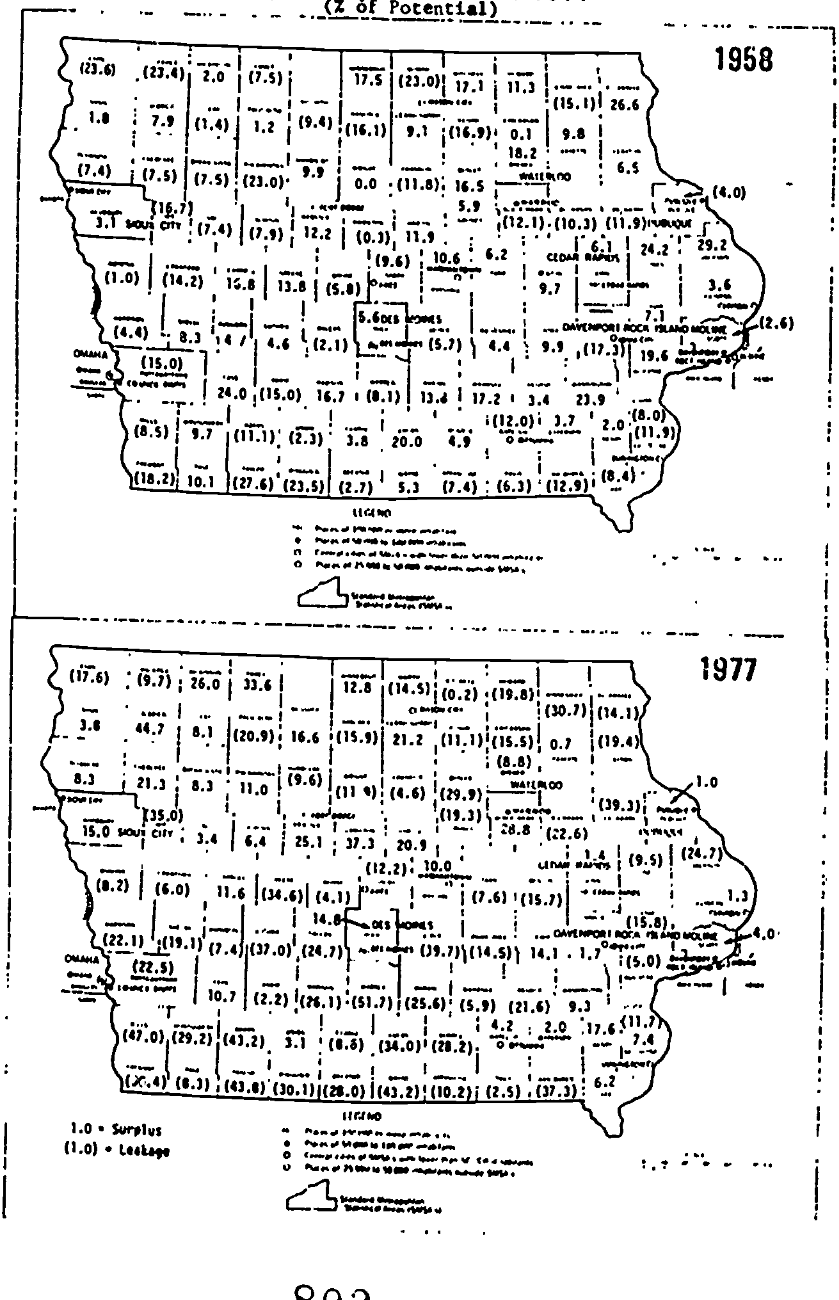


Figure 6

Kansas Retail Trade Surpluses and Leakages by County for 1958 and 1978

(% of Potential)

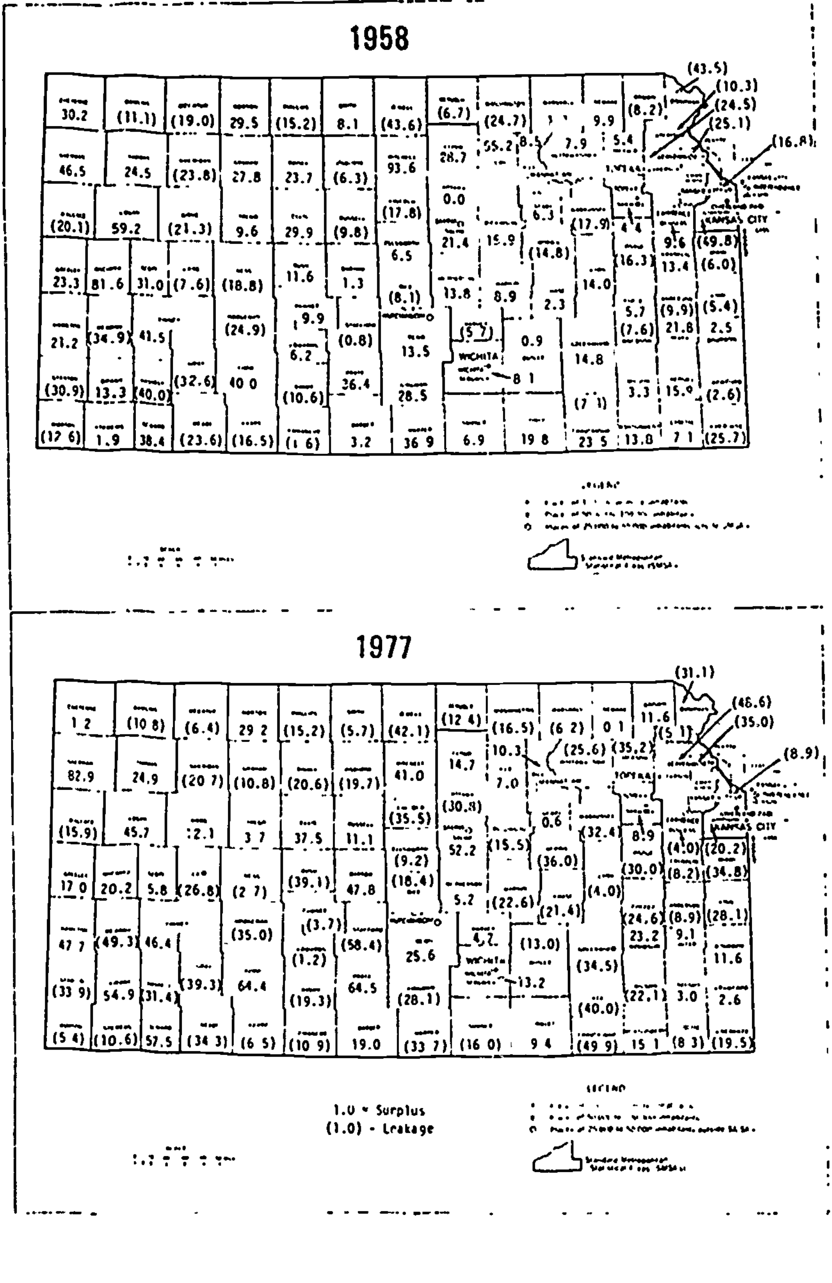


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Figure 7

Missouri Retail Trade Surpluses and Leakages by County for 1958 and 1977

(% of Potential)

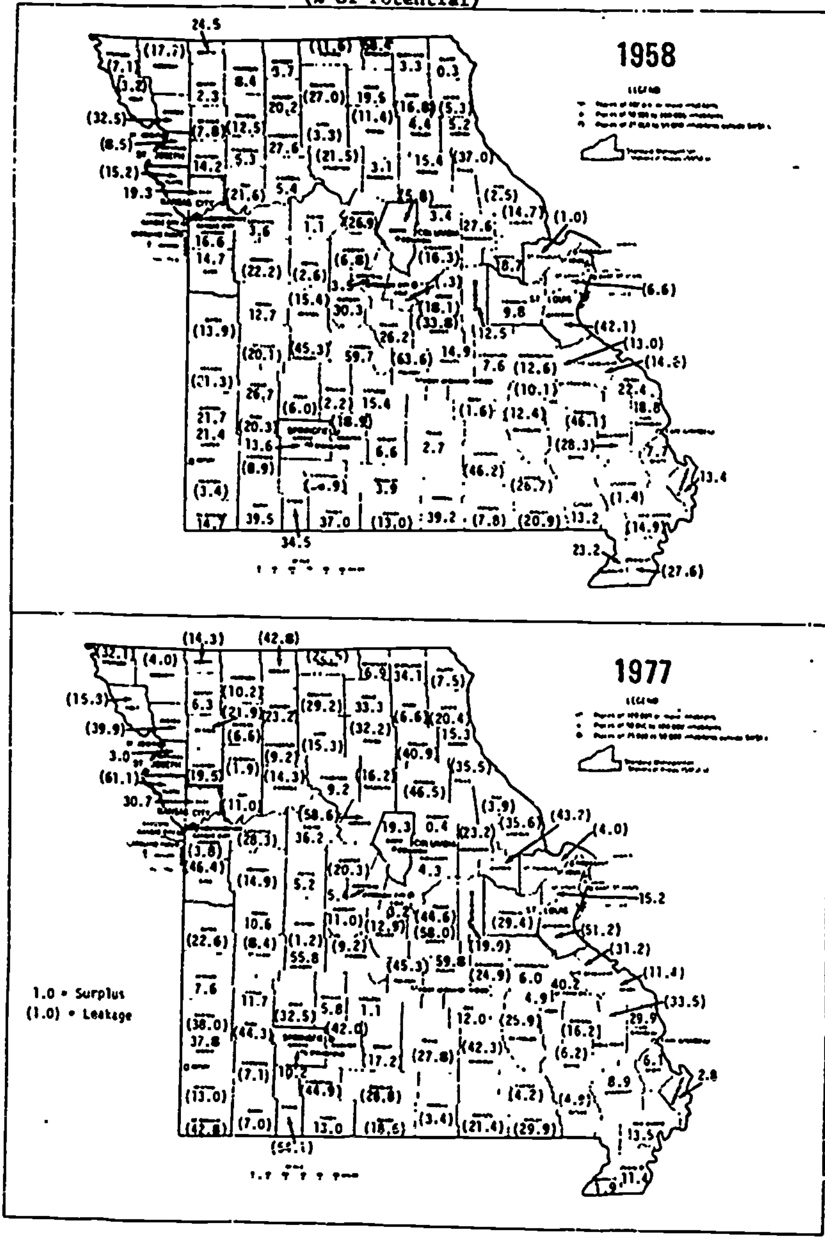
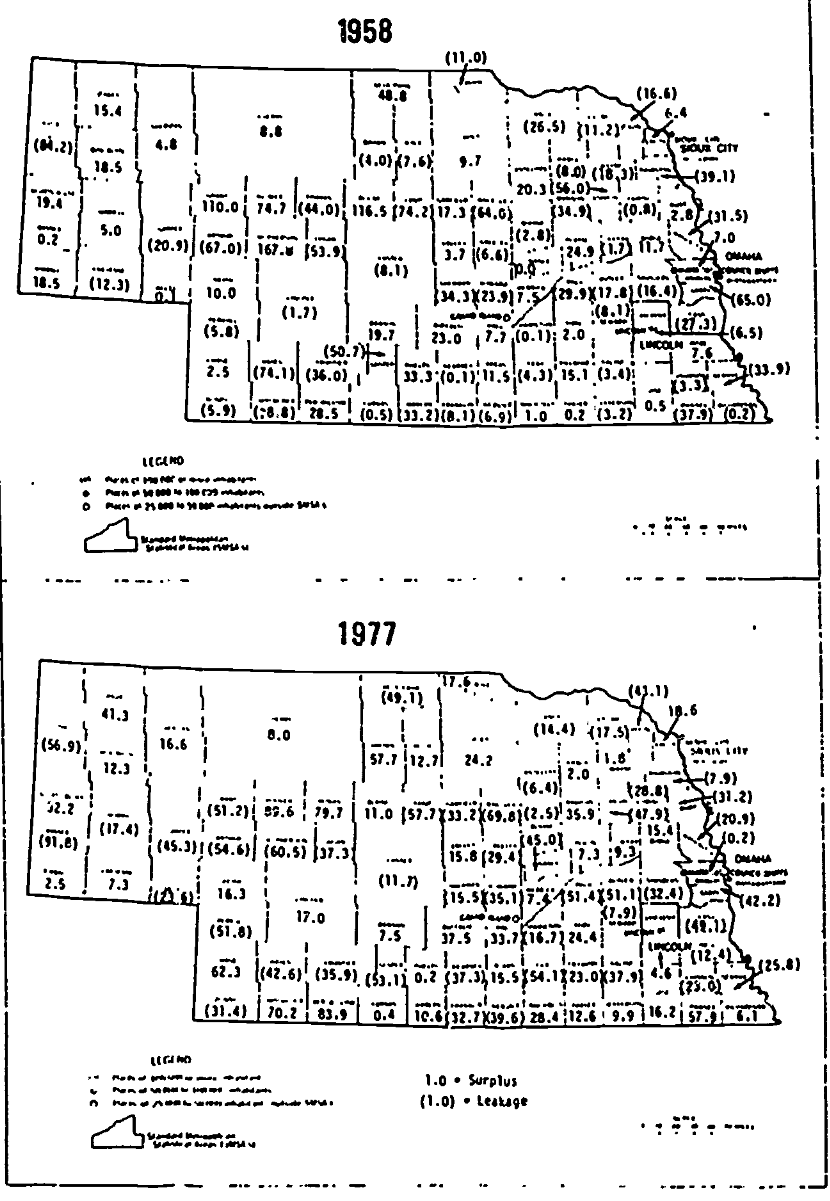


Figure 8
Nebraska Retail Trade Surpluses and Leakages by County for 1958 and 1977
(% of Potential)



The net gains in both metropolitan centers and in some remote areas were probably due, in part, to tourism and/or transient traffic.

The biggest losers were the rural counties in the proximity of metropolitan centers. However, there were cases in some of the more remote areas where heavy leakages occurred. Migration from these counties was apparently to adjacent rural counties or to more distant metropolitan centers.

IMPLICATIONS OF FINDINGS

The findings of this study verify what many people intuitively have felt: there has been a considerable migration of retail sales from less populated areas to bigger population centers. It was not the purpose of this study to determine why, but one can speculate as to some reasons.

The continual reduction in the farm population has brought about a reduction in the economic base in the more rural areas. Consequently, many types of stores that once were viable are no longer able to remain profitable. One needs only to drive down the main streets of many small rural midwestern towns and observe the vacant and converted stores to verify this fact. Once a store terminates business in a smaller town, the town becomes an even less attractive shopping place, even less attractive as a place to start a new business, even less attractive as a place to live.

Improved mobility of rural residents has probably been another factor in the migration to bigger shopping centers. This has been brought about through better highways, in particular the interstate system, and through better vehicles.

Shopping malls also appear to be a strong factor in attracting people from rural areas. The large anchor stores and the vast selection of certain types of merchandise also appear to provide strong attractions to shopping malls. In addition, the malls offer plenty of free parking, convenient shopping hours and controlled climate, all of which are hard to find in smaller towns.

Impact On Existing Businesses

The impact of retail trade migration on some existing businesses in small towns is painfully obvious. This seems to be most acute in merchandise lines where selection is a prime factor in buying. Clothing stores, shoe stores, variety stores and jewelry stores are examples of businesses most severely affected by out-migration. The stores become victims of the proverbial vicious cycle. The decline in economic base causes a reduction in the number of customers which causes the store manager to reduce stock which causes the store to have less appeal, which causes more existing customers to leave, which causes the store manager to reduce stock even further, etc.

Many stores offering services or merchandise where convenient location is a factor in buying, often continue to thrive in the face of a shrinking economic base. Examples of these businesses are hardware stores, lumber yards, farm supply stores, plumbing and heating services, automobile repair shops, etc.

Impact On New Businesses

The outmigration problem presents special challenges to individuals establishing new businesses, especially in smaller towns. Many new businesses are started in small towns with the knowledge that the trade area population is sufficient to provide the volume of customers needed for success. But failure to recognize the migration patterns of shoppers is a shortcoming of many new business people. Unless the new store is truly comparable to its big city competition, many shoppers will not give it a second try. For example, a small fabric shop in a small town in the shadow of a big city shopping center probably does not have much chance for success. The larger selections and possibly better prices in the city stores are strong attractions for customers.

Conversely, a well managed repair shop in a small town could have an advantage over its city competition in the form of lower prices because of lower overhead and operating costs. It could also be more convenient and provide more personalized service.

Impact On Transportation And Energy Costs

After an examination of Figures 5-8, it is fairly obvious that many consumers from Region VII are traveling long distances to purchase goods and services that in earlier times would have been purchased much closer to home. This migration for shopping is typically accomplished through the use of personal vehicles and probably results in a large amount of extra mileage. Without further study it is not clear what the net energy increase would be. However, a hypothetical example may serve to illustrate the magnitude of the problem. Assume the following for a state with 100 counties.

Average round trip travel increment to shop out of town = 70 miles
Number of families per county that migrate (1/3) = 2,000
Number of shopping trips per year = 12
Number of migrating counties = 60

This would amount to approximately 101 million additional miles per year. If vehicles averaged 17 miles per gallon, this would require approximately six million gallons of additional gasoline. In terms of additonal cost to car owners, at 17 cents per mile, the additional cost would be approximately 17 million dollars per year. Presumably, migrating shoppers feel at least one of the following.

1. They save more than the cost of the trip because of lower prices in the larger shopping centers.

2. The satisfaction derived through larger selections is worth the additional travel costs.

3. They do not have a viable alternative.

Impact On Communities

There has been a significant impact on the retail sectors of many communities, especially those in the shadow of metropolitan centers. Unfortunately, this impact carries over to other segments of the community. For example, if a community has a leakage of retail sales of $5,000,000 annually and a multiplier factor of two, the total revenue leaving the community would be $10,000,000.

Oftentimes communities are judged by the appearance of their retail districts. As appearances of smaller town business districts degenerate, so too do the chances of acquiring new industry, new medical professionals, new residents, etc. In general, the effect on smaller communities is debilitating.

Conversely, the effect of migrational shopping on larger shopping center towns has been growth enhancing. The large volume of customers presents a picture of vitality which is attractive to additional industry, additional retail business, additional professionals and additional residents.

Future Scenarios

Scenario 1. Energy supplies remain similar to mid-1979 conditions. Assuming that ratios of gasoline prices to disposable incomes remain at mid-1979 levels, the trends for migration of retail sales from rural areas to population centers will probably change very little. If larger shopping centers can, in fact, sell merchandise for lower prices because of large volume, the migration trends will almost certainly continue for more expensive items. For example, assume that a customer travels 35 miles to a large shopping center to purchase a $200 item that is $20 less than in his or her home town. The 70 mile round trip would require approximately four gallons of gasoline in a 17 mpg car. That is $4.00 at $1.00 per gallon gasoline prices. Most customers would consider such a shopping trip as fully justified.

It is conceivable that customers may shop closer to home for less expensive items. Also it is probable that lower income consumers will tend to shop closer to home.

Scenario 2. Energy supplies are rationed and/or prices continue to increase at a rapid rate. If gasoline should be rationed, there could be an adverse effect on larger shopping centers. Trade area size would probably diminish considerably. In fact, volume could decrease to the point where shorter operating hours would be mandated. Or conversely, a possible fuel-saving policy dictated by government could be the restriction of shopping malls from opening at nights or on weekends. This would create a disastrous situation for the mall stores which presently depend heavily on these shopping hours to draw trade from outlying areas where local stores are closed. At the same time, if the policy appeared somewhat permanent, it would signal smaller town merchants and developers that there is again more potential for retail stores in smaller communities.

If entrepreneurs do not capitalize on a situation such as the above, consumers would be left in an unpleasant situation with respect to certain types of merchandise. It is conceivable that in cases such as this, consumer cooperatives could develop to provide scarce types of merchandise. This situation would not be too different from the situation where private sector agribusiness firms were ignoring the needs of farmers in certain agricultural areas and consequently helped bring about the formidable farmer cooperative system.

RECOMMENDATIONS AND CONCLUSIONS

Based on this study it can be concluded that in general the rural areas of Region VII states have been losing progressively more retail trade over the last 20 years. Conversely, more metropolitan areas, for the most part, have been gaining more trade over the same period. The losses are most severe for rural counties near metropolitan areas. Some rural areas in remote locations are holding their own and/or showing gains in retail sales.

The losses in retail trade appear to be heaviest in general merchandise, apparel, food, home furnishings, and specialty items. The merchandise lines where rural areas are doing well are generally farm related. They are building materials, hardware and farm machinery.

Future Research

There is a need to more precisely define potential sales. The method used in this study is generally satisfactory, however, it does not take into consideration the effect of factors such as distance to more populated areas, age of population, tourism, etc. An econometric study designed to determine the effects of these factors would certainly provide valuable information and would allow planners and policy makers to more precisely analyze retail trade migration.

A study to determine the optimal location of various types of shopping centers with respect to net energy savings would also seem to be of importance at this time. This could be based on feasible sized shopping centers located so as to provide needed goods and services to the maximum population while minimizing travel.

Governmental Policy

If, in fact, it is the purpose of government to attempt to rectify inequities caused by the market system, the following are policy directions.

1. Tax incentives for development of rural shopping centers. Rural shopping centers could alleviate the hardships on rural residents caused by loss of local shopping facilities. However, developers are reluctant to build in rural areas because of sparse population, especially when metro shopping centers can successfully draw rural residents from afar. Tax incentives could also help local governments

and merchants with expanding, rebuilding and developing existing shopping facilities.

2. Loan programs to assist in building rural shopping centers. In the final analysis, financing is probably the most critical factor in developing any new facilities. Because of their deteriorating situation, some rural merchants have a particularly difficult time in raising both capital and operating funds.

3. Tax incentives and funding for development of rural retail goods distribution systems. One factor that creates higher cost of goods for rural merchants is the higher transportation costs brought about by remoteness from distributors and duplicity in the system. Greater efficiency in the distribution system could reduce net energy requirements also.

Possible Community Actions

Community government must act in harmony with merchants to solve some of the problems causing outmigration of retail customers. Parking in many rural towns is inadequate even for lower levels of trade recently experienced. Local governments could assist merchants greatly by providing adequate, convenient parking for retail customers.

The local government could also assist retailers by providing efficient traffic flow. Current traffic flow in some rural towns is inconvenient to say the least.

The provision of comfort facilties is also an action that community governments could take. Inadequate restroom facilities are a common complaint heard from older people and parents with young children.

Possible Actions By Businesses

Merchants can accomplish little on their own until they cooperate in a unified effort. Unfortunately, this is a major problem in many smaller communities.

Business people should develop a strategy that would allow their businesses to effectively compete with their primary competition. This involves recognizing trade potentials, customer characteristics and limitations. It involves finding a niche where the business community can effectively compete. For many small towns, this probably means concentrating on convenience goods and services.

Some towns may be able to capitalize on a heritage theme or on certain degrees of tourism. Where applicable, these themes can be effective in maintaining vibrant retail sectors.

MODELS AND METHODOLOGY

This study revolves around the methodology for determining potential sales for counties. Potential sales were compared to actual sales to determine if counties had leakages or surpluses of retail sales.

PROCEDURE FOR DETERMINING POTENTIAL RETAIL SALES

For this study, county potential sales were based strictly on the characteristics of the population within the county. County retail sales potential was determined by multiplying county population by state per capita retail sales expenditure. This product was further multiplied by index of income to take into account differing county income levels. The equation is:

$$P_{rs} = CP \times SE \times I$$

where: P_{rs} = County Potential Retail Sales

CP = County Population

SE = State Expenditure (per capita) for retail sales

I = Index of Income

County population, CP, was found in Survey of Buying Power. It is based on the last U.S. Census of Population and is updated annually.

State expenditure (per capita) is derived by the following equation.

$$SE = \frac{TS_s}{SP}$$

where: TS_s = Total state retail sales

SP = State population

Total state retail sales were found in Census of Business and in Market Guide, a commercial data source.

Index of income was determined by using the following equation.

$$I = \frac{CI}{SI}$$

where: CI = County average income

SI = State average income

The following example illustrates the procedure for determining potential retail sales for a hypothetical county.

ASSUME: County Population (CP) = 12,000
Total State Retail Sales (TS_s) = \$10,000,000
State Population (SP) = 3,000,000
State Average Income (SI) = \$6,000
County Average Income (CI) = \$5,500

THEN:
$$P_{rs} = CP \times SE \times I$$
$$= CP \times \frac{TS_s}{SP} \times \frac{CI}{SI}$$
$$= 12{,}000 \times \frac{10{,}000{,}000{,}000}{3{,}000{,}000} \times \frac{5{,}500}{6{,}000}$$
$$= 12{,}000 \times 3{,}333 \times 0.917$$
$$= \$36{,}676{,}000$$

The procedure for determining potential sales for merchandise groups is similar to the above procedure except that state per capita expenditure for the merchandise group is substituted for total state expenditure for retail sales.

PROCEDURE FOR DETERMINING LEAKAGES OR SURPLUSES

After potential county retail sales were determined, a comparison was made to actual sales. When potential sales were greater than actual sales, the difference was considered a "leakage." When actual sales were greater than potential sales, the difference was considered a "surplus."

Surpluses and leakages were converted to percentages by dividing the dollar amounts by the potential sales in dollars.

LIMITATIONS OF METHODOLOGY

Since potential retail sales is the main determinant in this study, it is important to understand the methodology used in its calculation. If the population was uniform in its make-up and if it were uniformly distributed, the technique used here would be extremely accurate. The technique is probably accurate for a certain portion of the population, however, the model does not take into consideration the age of the population. Also, proximity to larger population centers is not considered in the model. Other factors such as tourism and geographic location of the population within the county are also not included. A much more detailed study would be necessary to include these desired variables.

The assumption that retail sales per capita varies directly with people's incomes is not completely accurate. It is known that different people have different consumption functions, but in lieu of this specific knowledge potential sales as calculated herein are believed accurate enough for study purposes for most of the counties.

THE DATA BASE

The retail sales data for 1958 and 1967 come from the Census of Business for those years. At the time research began it was believed that the 1977 Census of Business would be available in time for use. However, the data were delayed. Consequently, there was no choice except to use commercial data sources. Retail sales data for 1977 were found in Market Guide.

Population and income figures for 1958, 1967 and 1977 were found in Survey of Buying Power.

Sales by merchandise group for Iowa were found in the 1978 Iowa Retail Sales and Use Tax Report.

It generally is assumed that the Census of Business is the standard of excellence for accuracy in reporting retail sales. Checks of the commercial data for several years indicate that it generally is within 10 percent of the Census of Business, and usually much closer than that. Therefore, the use of commercial data for 1977 retail sales should not substantially affect the results and conclusions.

FOOTNOTES

[1] Stone, Kenneth E., "Retail Trade Migration," Business Management Newsletter, Iowa State University, July, 1979.

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