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ABSTRACT

Structural change in the economy is causing economic stress in rural America, especially in areas with a heavy dependence on agriculture, mining and energy, and manufacturing. This contrasts sharply with the 1970s, when widespread economic growth and vitality were the dominant rural themes. Rural economies in the 1980s are characterized by slow job growth and high unemployment, outmigration and reduced population growth, and underdeveloped human resources. Although public policy can facilitate community adjustment to structural economic change, there is considerable debate about the role of public policy in easing the adjustment burden for displaced people and their communities. Devising a national rural development policy involves making political choices. The interests of those affected by rural stress and structural change must be balanced against the costs and likely success of attempting a remedy. Much of the responsibility for devising and administering rural programs will fall to state governments, and the success of these problems will depend on leadership in local communities. The Federal Government's role is to foster an economic environment conducive to growth, to facilitate multistate and multicommunity approaches, and to ensure that adequate attention is given to human development programs, such as education and training. (KC)

This is a summary of a study requested by the U.S. Senate. It analyzes recent rural trends and what they portend for the future of rural America. The full study will be published later and will be sold through the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, telephone (202) 783-3238. The contents of the full report are listed at the back of this summary. Additional copies of this summary are available, while supplies last, from ERS Publications, Rural Summary, 1301 New York Avenue, NW, Washington, DC 20005-4788.

RURAL ECONOMIC DEVELOPMENT IN THE 1980's: A SUMMARY.

Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 533.

Public policy can facilitate community adjustment to structural economic change. However, there is considerable debate about the role of public policy in easing the adjustment burden for displaced people and their communities. Devising a national rural development policy involves making political choices. The interests of those affected by rural stress and structural change must be balanced against the costs and likely success of attempting a remedy. Much of the responsibility for devising and administering rural programs will fall to State governments, and the success of these programs will depend on leadership in local communities. The Federal Government's role is to foster an economic environment conducive to growth, to facilitate multi-State and multi-community approaches, and to assure that adequate attention is given to human development programs, such as education and training.

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FOREWORD

Structural change in the economy is causing economic stress in rural America, especially in areas with a heavy dependence on agriculture, mining and energy, and manufacturing. This contrasts sharply with the 1970's when widespread economic growth and vitality were the dominant rural themes. Rural economies in the 1980's are characterized by slow job growth and high unemployment, outmigration and reduced population growth, and underdeveloped human resources.

In response to these conditions, the Senate Appropriations Committee directed the Economic Research Service to "... conduct a study to identify alternatives for maintaining and strengthening economic development in rural communities..." This report, which responds to the Committee's request, synthesizes existing knowledge on rural issues. The report contains up-to-date information on changes in the structure and performance of the rural economy and on alternative policies to help displaced people and rural communities adjust to the change.

Selecting a national rural development policy is ultimately a balancing of the interests of groups whose opportunities are being affected. We identified macroeconomic, sectoral, territorial, and human resource policies as the four general elements of public intervention affecting rural economic development. Our research suggests that macroeconomic and human resource policies are likely to be most effective in dealing with problems facing rural areas in the 1980's and 1990's. Human resource policies in particular help people adapt to changing technologies and marketplace conditions. Such adaptations are essential if rural areas are to maintain a competitive position in the national and global economies and share in economic growth. The future role of sectoral and territorial policies is less clear. They may encourage resources to become trapped in inefficient locations and industries.

We hope that this report provides information useful to the Congress in debating and making the hard choices among alternative policies.

JOHN E. LEE, Jr.
Administrator

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DAVID L. BROWN, Chairperson
Steering Committee

RURAL ECONOMIC DEVELOPMENT IN THE 1980's

A Summary

While growth and economic vitality were the dominant rural themes in the 1970's, structural change and economic dislocation have become overriding rural issues in the 1980's. In recent decades, the rural economy has shifted from heavy dependence on natural resource-based industries to more reliance on manufacturing and services industries, much of it in low-wage, low-skill jobs. This industrial restructuring has left rural areas open to rapid shifts in production technologies, which appear to have reduced their competitive position in the national and international economy. At the same time, the rural economy has become more closely tied with national and global economies, making it more sensitive to changes in macro economic policy, business cycles, and global competition. These events, combined with longstanding weaknesses in the rural economy, have led to significant problems in some areas, raising questions about the ability of rural areas to adapt.

The Rural Development Situation

In the 1980's, downturns in several industries important to rural areas (agriculture, mining and energy, and manufacturing) coincided, turning what would normally be local or regional problems into a widespread rural decline of national proportions.

Slow Rural Job Growth and High Unemployment. Rural employment growth since 1979 (the peak of the last business cycle) has been slower than urban employment growth, 4 vs. 13 percent. Slow growth is concentrated in the natural resources and goods-producing industries. Counties depending on mining and energy extraction actually saw their total employment decline by 9.5 percent, while agriculture counties showed virtually no growth and manufacturing counties grew by only 2.7 percent (fig. 1).

the rural economy is indicated by high unemployment rates. More than 1,000 rural counties had annual unemployment rates of 9 percent or

Figure 1
Change in employment by type of county

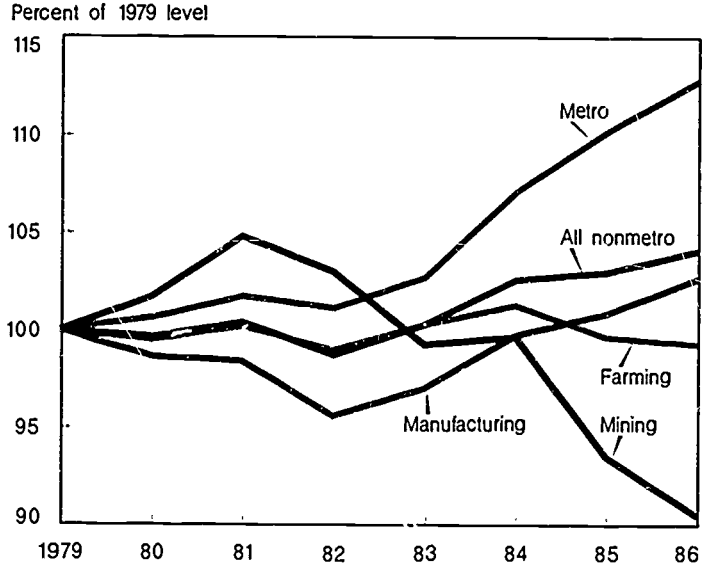
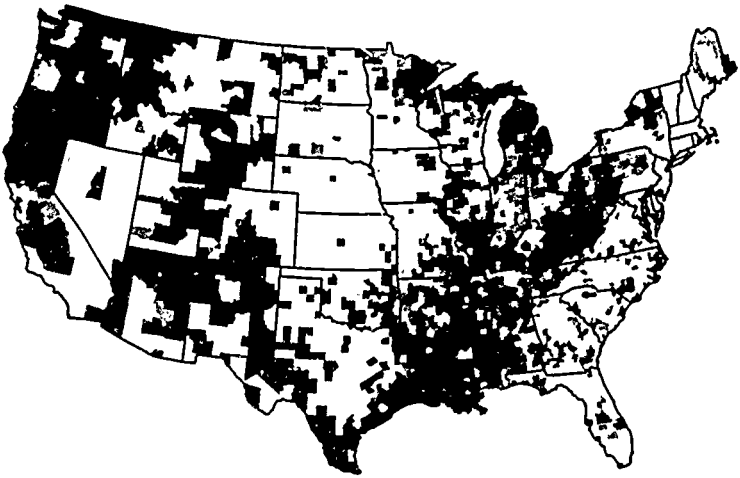


Figure 2
High nonmetro unemployment



Source: Bureau of Labor Statistics

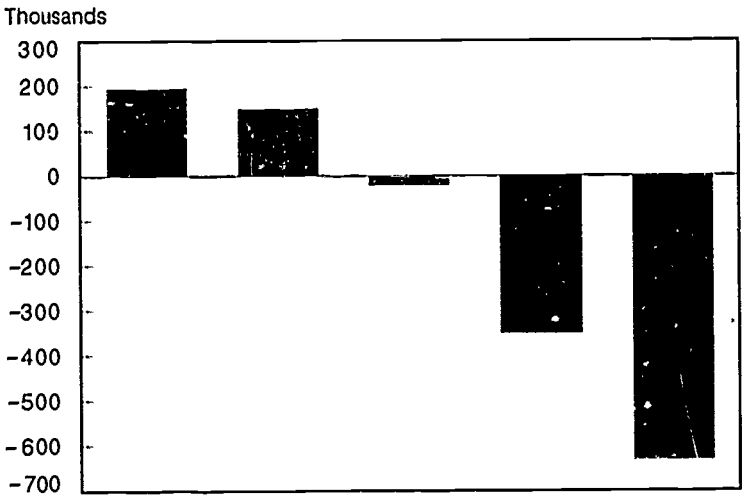
higher in 1986 (fig. 2). High unemployment rates are concentrated in the manufacturing counties of the South and East, and the mining and energy counties of Appalachia, the Gulf Coast, and scattered areas of the Northwest. Though lower in agricultural areas, unemployment rates, for technical reasons, are not a good measure of economic stress for these areas.

Reduced Population Growth. Slowed nonmetro population growth in the 1980's seems to signal a return to the general rural decline of the 1950's and 1960's. Between 1985 and 1986, 632,000 people moved out of nonmetro areas. This is a larger outmovement than the annual average of either the 1950's or 1960's, and a turnaround from the 1970's, when nonmetro areas had a net migration gain of over 350,000 persons per year (fig. 3).

Almost half (1,160) of all nonmetro counties lost population during 1983-85, more than 2.5 times the number (460) that lost population during the 1970's (fig. 4). Population decline and outmigration are concentrated in the Plains and western Corn Belt, but have recently spread to the lower Great Lakes region and parts of the South.

Slow population growth and outmigration, though indicating decline in the performance of rural economies, do not necessarily mean that the remaining population is impoverished or that communities lack essential services and facilities. In fact, in some areas, those who stay behind may be better off and the communities may have an oversupply, rather than a lack, of public facilities.

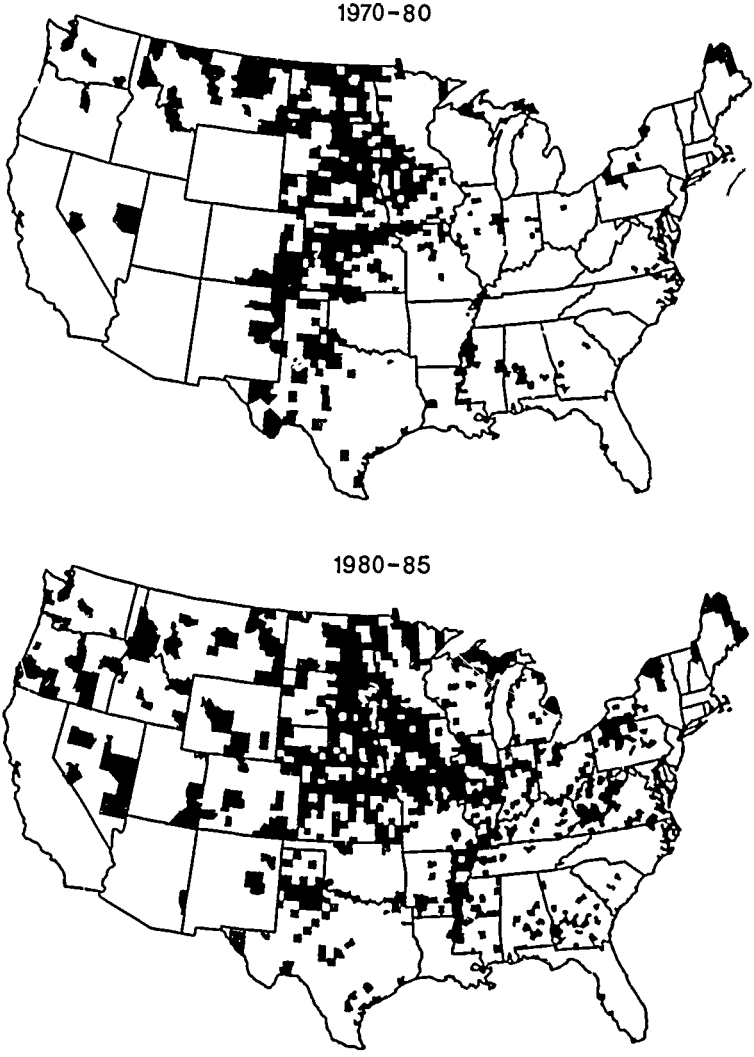
Figure 3
Nonmetropolitan net migration in the 1980's[1]



[1] For 1980-83, nonmetropolitan counties are as defined in 1970. 1984 definition is used thereafter (noninstitutionalized population)
Source: U.S. Bureau of the Census.

Figure 4

Nonmetro counties with declining population 1970-80 and 1980-85



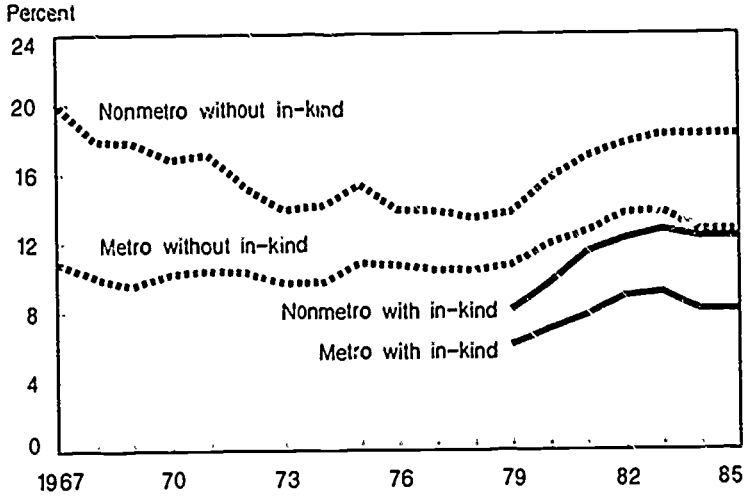
Source: US Bureau of the Census

Underdeveloped Human Resources. A disproportionate share of rural population has been poor throughout the century. The 1985 poverty rate of the nonmetro population was 18.3 percent, compared with 12.7 percent of the metro population. The metro poverty rate has been falling during the recovery from the recession of the early 1980's, but the nonmetro rate has not (fig. 5).

Characteristics of the nonmetro poor differ from those of the metro poor Nonmetro poor are more likely to be elderly, white, and reside in the South. Work effort is much higher in poor nonmetro families than among other population groups. Over two-thirds of poor nonmetro families had at least one worker and a fourth had two or more workers. As a result, the structure and performance of rural labor markets have an important bearing on rural poverty.

Nonmetro residents continue to lag behind metro residents in education The gap for high school completion has persisted at about 10 percentage points since 1960, and the gap for college completion has widened since then. The metro/nonmetro gap in education for minorities is even wider Low educational attainment and high illiteracy and school dropout rates are especially common in the South (figs. 6, 7). Low spending for public schooling in the South suggests that little progress is being made in reducing the region's educational disadvantage.

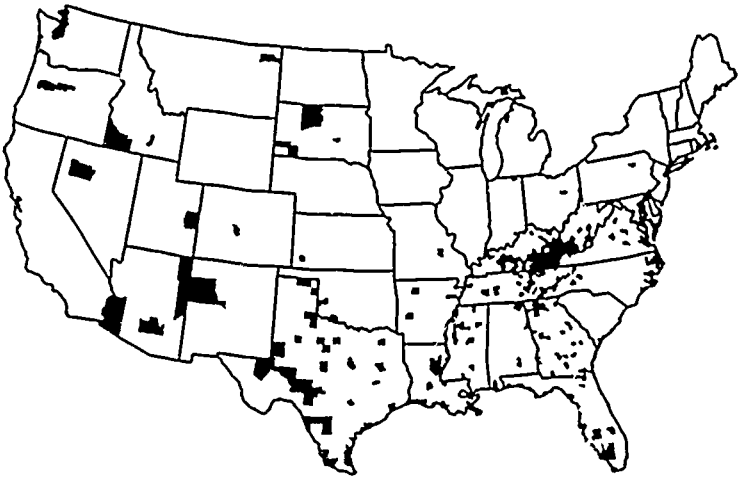
Figure 5
Poverty rates with and without in-kind benefits[1]



1/ In-kind benefits are non-cash transfers for such purposes as food, housing, and medical care
Note: Metro-nonmetro based on the 1980 Census for 1985 on the 1970 Census for 1969 and 1971-83, and on the 1960 Census for earlier years No 1984 data
Source: US Bureau of the Census

Figure 6

Highest nonmetro high school dropout rates are in South and Southwest

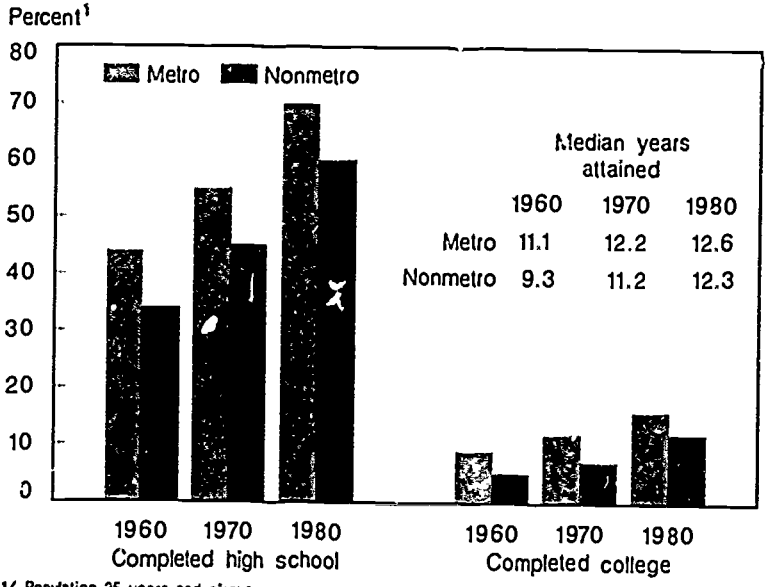


Nonmetro counties with highest high school dropout rates (highest 10%)

Based on 1980 data. Applies to ages 16-21

Figure 7

Educational attainment by residence



[1] Population 25 years and above.
Source: US Census of Population

Because rural America is diverse, these conditions do not apply to all rural communities. For example, while the Nation's nonmetro population fell during the 1980's, retirement/recreation areas have continued to grow rapidly. And while the overall industrial composition of the rural economy is similar to urban America's, the economies of individual local areas tend to be specialized. About 700 of the 2,400 nonmetro counties specialize in agriculture, nearly 700 more are principally dependent on manufacturing, and about 200 depend heavily on mining and energy extraction. Relatively poor performance in these three sectors has been the principal cause of rural economic stress in the 1980's. Since these industries tend to be concentrated in certain regions, targeted development strategies are more appropriate than a national rural development approach in ameliorating the conditions

Elements Of Rural Policy

Until a decade or two ago, rural policy and farm policy could often be considered synonymous. But such a congruency is no longer defensible. The farm population now makes up only 9 percent of the rural U.S. population, and farmers and farmworkers make up only 8 percent of the workforce in rural areas. Other economic influences besides those related to farming now exert more important effects on the rural economy. In addition, the rural economy is no longer insulated from national and global economies but has become an integral part of them. As a result, national rural policy will encompass a variety of policy elements. Major contributions to a rural policy stem from four policy arenas: macroeconomic policy, territorial policy, sectoral policy, and human resource development policy.

Macro Policy. The rural economy is now an integral part of the national and global economies. Rural employment is slightly more sensitive to changes in macro policies than is urban employment. These differences are especially pronounced in the nonmetro Northeast and South because of their relatively greater reliance on manufacturing. The 1980-85 period illustrates the important role played by monetary and fiscal policy in determining the competitive position of U.S. industry. Tax policies also influence rates of saving, investment, and capital formation, with potentially significant effects on overall employment growth and its composition. Rural areas have a major stake in macro policies that promote rapid rates of real economic growth. Such policies are likely to reduce economic stress accompanying structural adjustment in rural areas.

Sectoral Policy. Sectoral policy regulates the performance of individual industries or focuses on redressing industrial decline. It includes tax, regulatory, and direct investment programs targeted to specific industries. These programs are seen as a strategy to restore America's competitive position. Because current rural stress results primarily from adjustments in agriculture, mining, energy, and manufacturing, sector-specific economic

policies are an option to consider. At the same time, such policies have the potential to become primarily protectionist, thus inhibiting adaptation and change in rural economies.

Territorial Policy. National rural development policy has usually focused on strategies to narrow the differences in levels of economic activity, growth, and rates of return between rural and urban areas. Federal programs aimed at rural economic development have concentrated on public infrastructure, attempting to increase local comparative advantage and encourage local job creation. Current widespread rural stress results from a combination of national and international factors, which may significantly reduce the efficiency and feasibility of such place-specific policy.

Human Resource Policy. Rural residents continue to suffer from an educational disadvantage with urban residents. Rural southerners are the most disadvantaged in this regard. Human resource problems stemming from rural areas affect urban areas too, because many rural youth will spend their working lives in urban areas. Industrial and occupational restructuring now occurring in the rural economy is displacing many rural workers, putting a premium on their learning new job skills. Human resource policies, to prepare people to enter the labor force and to equip them for occupational changes if they are displaced, are central to ameliorating rural economic stress.

Policy Choices

Our analysis of rural conditions and the economic forces at work leads to several observations about alternatives for future rural policy that may better inform the policy choices that are made.

Facilitating Adjustments. The economic adjustments creating stress in rural areas present a dilemma for territorial strategies. Promoting growth where people live and in occupations or industries in which they work is the least disruptive to communities and families and is the most politically attractive. But current rural economic adjustments appear to result largely from real competitive disadvantages, not failures of information or capital markets, or from generally inadequate rural infrastructure. Thus, rural policy that provides public subsidies for development in-place often traps resources in inefficient businesses or locations. The overall regional and national economy is better served by policy that facilitates a smooth and rapid movement of capital and labor from weaker to stronger industries, and from less to more competitive locations.

Protectionism. Policies to protect certain industries until they can modernize and become more competitive have many advocates. There are, however, questions about how to identify specific industries or firms to assist, and

it is difficult to end protection programs once they are begun. Rural areas cannot achieve longrun prosperity by subsidizing certain sectors or firms to protect them from a competitive world economy. Such subsidies are costly. They stifle creativity and new enterprise development. They may not even stem near-term job losses because their success often depends on labor-saving technologies. They only postpone inevitable structural adjustments.

Farming. The future course of farm employment is almost certainly one of decline. There is no near-term prospect of employment recovery in mining and energy industries, and future job gains in rural manufacturing seem unlikely to provide the impetus for rural growth that they did in the 1960's and early 1970's. Thus, rural economic development policy too closely tied to revival of these sectors is unlikely to succeed. The declining significance of agriculture, in particular, as an employer of rural workers and as a source of rural income has made farm policy ineffective as a strategy to improve general rural well being. The interests of the farm sector and the territorial needs of rural areas would be served better by separate policies that have distinct objectives.

Shifting the Costs. Externalities, that is, mismatches between who benefits and who pays for certain activities, are often used as an economic rationale for public policy intervention. For national rural development policy, the existence of externalities provides the strongest case for education and training programs. Many rural communities will not directly benefit from higher spending on improved basic education or occupational and skill training and retraining, because graduates of these programs will often leave the community to seek better opportunities. Some States may face a similar problem in capturing such benefits. Thus, Federal programs to improve the human capital endowments of rural youth and the rural workforce (including workers dislocated in the current industrial restructuring) are the only means to overcome chronic underinvestment in rural human resources. They also have a major effect on overall economic performance of the Nation, not just on successful rural development.

State Role. Diversity among rural communities makes the task of designing a national rural development policy more difficult. Some rural areas may need assistance while others do not. The kind of assistance likely to be needed varies from State to State, and community to community. This situation enhances the role of States in developing and delivering rural programs. States may be able to promote collaboration among nearby rural communities, helping each one to identify a specialized role to play as a "neighborhood" in the surrounding region. Regional rural approaches might make possible some economies of greater scale, and offer the attractiveness of larger and more varied labor markets, thus enhancing the range of feasible development options.

Community Role. Rural communities and rural people must shoulder the major responsibility for identifying opportunities for local development and mobilizing resources to deal with structural change. Local efforts will not assure the growth of every rural community. Such efforts will collectively fall short of generating enough rural jobs for all who live in rural areas. Still, to keep more dollars in the community, rural consumers can be offered more goods and services produced locally. New business startups show considerable potential to improve the performance of many rural economies and generate new job opportunities. Rural businesses can overcome cost disadvantages due to remote location by producing specialized goods and services that fill market niches. Public policy can facilitate new rural enterprise by reducing information and transactions costs for private venture capitalists, thus assuring the availability of financing for rural development. Helping local entrepreneurs with other services—for example, management, accounting, and marketing services—can also enhance the success rate of small business startups.

Partnership With Business. National and international markets set overall constraints, but the success of individual local rural economies still depends on individual firms. The community environment in which their decisions are made is important. Many rural communities lack the organized institutional and leadership base to identify and aggressively pursue local economic development opportunities. Public policy that builds the capacity of local institutions to assess their comparative economic advantage, identify competitive opportunities, and marshal public and private resources to exploit these opportunities can make a difference to the future of rural communities.

Infrastructure. Numerous physical infrastructure problems in rural areas are constraints to growth. But these infrastructure problems are generally not those targeted by past Federal economic development programs, which looked toward new goods-producing firms as the way to rural economic development. Growth in goods production seems unlikely in the next several years for most rural communities. A more important constraint to rural job creation now seems to be the inadequacy of rural information and communications infrastructure to support growth in the service sector.

Smaller National Role. Many of the site-specific infrastructure investments that rural communities undertake (for example, industrial site development) provide few benefits beyond the immediate area and require only modest levels of funding. Given competing national priorities, a lack of evidence that funding is an insurmountable problem, and political consensus on shifting such responsibilities to State and local governments, there is little reason for a major Federal role in funding these projects. Most of the projects' benefits will be captured locally and could be financed by charging user fees that would allow the community to recover most of its costs.

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Ultimately, the choice of national rural development policy is political, a balancing of the interests of groups whose opportunities are being affected by widespread stress and structural change in the rural economy. Given the diversity of rural conditions and interests, much of the responsibility for devising programs to deal with rural stress will fall to State governments, and successful implementation of those programs will depend on the leadership of rural communities.

Both the costs of structural change and the benefits of programs to deal with it spill over local and State boundaries, these provide a rationale for a Federal role as well. That role extends to fostering an economic environment conducive to growth, facilitating multi-State or multi-community approaches to solving rural problems, and assuring adequate investment in rural people, as in education and training programs. Other responsibilities devolve upon the Federal Government because it can do some things better than State or local governments, such as providing information on and conducting analyses of broad national and rural economic changes that help to shape policy.

Some will argue for an even broader Federal role based on their perceptions of inequity resulting from the rural stress of structural change. There are human costs associated with geographic and occupational mobility, just as there are economic (and budget) costs associated with policies to slow the process of change. Historically, the U.S. economy has been strengthened by its ability to adapt to changing technologies and marketplace conditions. Future adaptation will also be required, and public policy should facilitate that process. There is, however, considerable debate about the rate at which structural change should proceed, and the role of public policy in easing the adjustment burden for displaced people and their communities.

Contents of the full report which will be available later from Superintendent of Documents, U.S. Government Printing Office Washington, DC 20402; telephone (202)783-3238

Chapter