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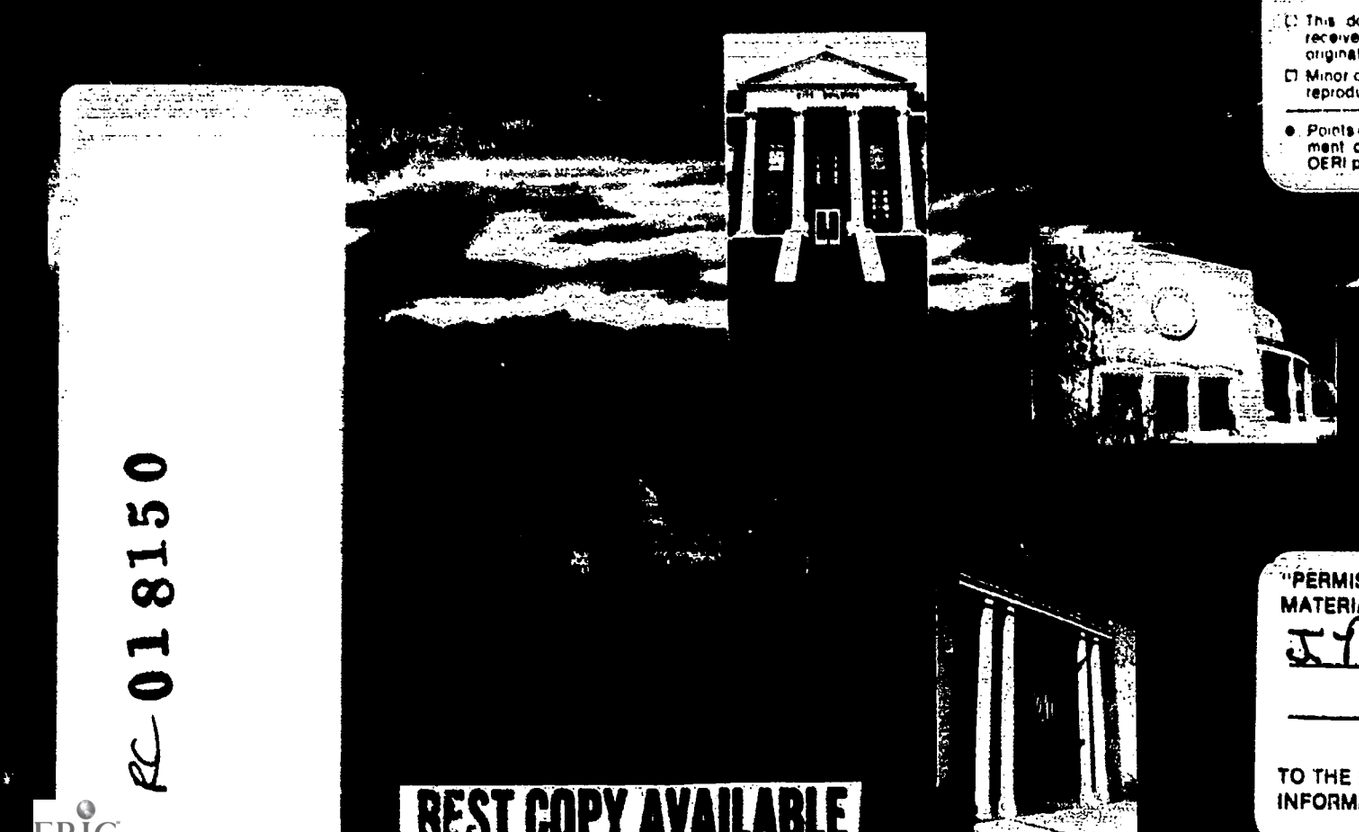
ABSTRACT

The National Commission on Agriculture and Rural Development Policy, established by Congress to provide broad, long-range policy perspectives, examined rural development policy issues and made many field visits to observe rural conditions and rural development projects. The Commission recognized the diversity of rural communities and identified causes of rural economic change to be: (1) the decline of traditional resources-based industries;; (2) international competition; (3) changes in technology and the job market; and (4) the phuysical distance and social isolation of rural communities. The following principles are suggested to guide rural development: (1) rural areas and people must be economically self-reliant; (2) rural areas and people must be able to adapt rapidly and effectively to changing market conditions; and (3) the rural physical and cultural environment--valuable elements of national life--should be protected. To achieve these goals, the federal government should undertake to: (1) review all of its policies to determine their effects on rural areas; (2) improve the availability of information about rural conditions and development strategies; (3) adopt a comprehensive and strategic approach to rural development; (4) foster better cooperation among rural development participants; (5) incorporate flexibility in its policies to accommodate the diversity of rural America; (6) promote innovation and experimentation in the pursuit of rural development; and (7) make education a major component of rural development policies. Improved rural education is necessary to attract high-wage high-skilled industries and to foster entrepreneurship and small-business growth, but rural schools are hampered by lack of funds and higher costs per student. (SV)

Future Directions in Rural Development Policy



Future Directions in Rural Development Policy

Findings and Recommendations
of the
National Commission on
Agriculture and Rural Development Policy

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Contents

Preface

The National Commission on Agriculture and Rural Development Policy was established by the Food Security Act of 1985. The Commission's 2-year purpose was to provide a broad and long-range perspective on U.S. agricultural and rural development policy. Composed of 15 members appointed by President Reagan, with the chairmen and ranking minority members of the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry acting as ex officio members, the Commission served as an impartial and nonpartisan source on policy goals and initiatives and as a sounding board between state and national policymakers.

Administrative and technical support for the Commission was provided by the U.S. Department of Agriculture's Office of the Under Secretary for Small Community and Rural Development, Economics Management Staff, and Economic Research Service.

In 1989, the Commission examined agricultural policy issues, including international competitiveness, production flexibility and efficiency, resource conservation, environmental quality, farm financial well-being, equity, marketing, and productivity. The Commission's report on these issues (*Future Directions in Agricultural Policy*) was presented to the President and Congress in December 1989.

In 1990, the Commission examined rural development policy issues. Field visits to observe conditions and rural development projects were made to many rural places. This report contains the findings and recommendations based on that examination.

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Executive Summary

The 1980's were much harder on many rural areas than on their urban counterparts. Crises in the agricultural and energy sectors combined with tough new foreign competition in manufacturing; the relative disadvantage of rural citizens in obtaining adequate, affordable education, health care, and other vital services; and the physical and social isolation that separate Rural America from urban centers of economic activity. Thus, the economic health of Rural America declined significantly. The prosperity of the 1970's and the "Rural Renaissance" was over.

There are many problems in Rural America, and Rural Americans are dealing with them, for their fate is in their own hands. However, the federal government has a critical support role to play. This report makes recommendations to help the federal government improve the way it makes and implements policies and programs for rural development.

The problems in Rural America are not homogeneous, however. As Rural America is diverse, so are its problems. No longer can Rural America be solely equated with agriculture. Farming is still a vital part of the rural economy; however, it directly employs less than 10 percent of the rural work force. Mining, manufacturing, tourism, services, and government are also important industries in the rural economy. Consequently, neither farm policy nor any other single-issue policy can sufficiently address the needs of Rural America.

Many of those problems are rooted in the features that define rural areas--the ability of the traditional rural economic base to generate sufficient income and employment, new competition for low-wage, low-skill jobs, and the physical distances between rural areas.

When, and if, a rural development policy is formulated, it will be done in a different context from that of the past. There is currently no defined rural development "policy." Instead, there exists a loose collection of individual programs. This situation is partly due to the division among various federal entities and among the federal, state, and local governments of responsibility for rural development. The federal government no longer plays the lead role, nor do we expect it to.

Rural development is important to rural and urban citizens alike. Indeed, rural development is important for the economic efficiency and security of this country. In the increasingly competitive global economy, the United States simply cannot afford to underuse the valuable resources in Rural America. Equity is also an issue. Equal opportunity to basic goods and services and to economic prosperity is a fundamental precept of our national heritage. Many Rural Americans are denied that opportunity.

The first step toward helping Rural America is to articulate goals for rural development policy. The needs of Rural America are not solely economic in nature. The Commission believes that the following principles should guide rural development.

- ***Rural areas and people must be economically self-reliant.*** In a highly competitive, market-oriented world economy, self-reliance is critical if the rural economy is to generate better jobs and income for its residents.

- ***Rural areas and people must be able to adapt.*** The world economy has changed rapidly in recent years. Economic change is predicted to become even more rapid. As a result, rural areas must develop the ability to respond rapidly and effectively to changing market conditions.

- ***The rural physical and cultural environment should be protected.*** The physical environment in rural areas and the cultural heritage of rural people are valuable elements of national life and livelihood, enjoyed by rural and urban residents alike, and deserve protection.

While these goals should be part of an overall rural development policy, variations within the policy are necessary to allow for the diversity of rural areas.

To achieve these goals under diverse conditions, the Commission makes the following recommendations. These recommendations, while specifically aimed at the federal policy process, can and should be applied at all levels of government--federal, state, and local.

The federal government should undertake the following actions:

- ***Review all of its policies to determine their effects on rural areas.*** Conditions in rural areas are often distinct from those of more urbanized areas. To avoid actions that inadvertently harm rural institutions and the rural economy, the federal government should adopt procedures that assure the special conditions and needs of rural areas are given adequate consideration in its policies.

- ***Improve information about rural conditions and development strategies.*** Effective development strategies require accurate and timely information about rural conditions and knowledge about appropriate strategies for responding to problems. The federal government should improve the availability of data about rural areas, and should promote better understanding about economic development strategy alternatives.

- ***Adopt a comprehensive approach to rural development.*** Rural development encompasses a wide range of issues. The federal government should establish a policy process that can develop a comprehensive approach to rural development. That process must assure a holistic approach to rural development policy within the federal government and must result in establishing effective communication and collaboration among other potential rural development partners in the federal, state, and local governments and the private sector.

- ***Adopt a strategic approach to rural development.*** The range of issues, the complexity of the relationships between those issues, and the scarcity of rural development resources demand strategic approaches to rural economic development. The federal government should establish a rural development policy process that results in planned, clearly defined strategies.

- ***Foster better cooperation among rural development participants.*** To make the most effective use of limited rural development dollars, the players in rural development--federal, state, and local governments, private enterprise, and nonprofit organizations--must form effective alliances to coordinate their efforts and collaborate in joint activities.

- ***Incorporate flexibility in its policies relating to rural areas.*** Conditions in rural areas are exceedingly diverse. What works in one rural area, may not work in another. The federal government must ensure flexibility in its policies to accommodate differing local needs and conditions.

- ***Promote innovation and experimentation in the pursuit of rural development.*** Rural development is not well understood and therefore subject to the reapplication of old,

often inappropriate approaches. The federal government should foster the formulation and application of innovative policies, strategies, and programs for rural development, and encourage replication of proven successes.

- ***Make education a major component of rural development policies.*** An educated population is an essential ingredient to improving conditions in Rural America. The federal government should take steps to improve education and training for rural citizens and integrate those programs with other rural development programs.

The Rural Plight

The 1980's were hard on much of Rural America. In a decade that began with perhaps the most severe recession since the Great Depression, the rural economy suffered more deeply, and for a much longer time, than the rest of the Nation. Major financial problems in the farm sector caused tens of thousands of farmers to leave the land. Plummeting energy prices threw large numbers of coal, oil, and natural gas workers out of their jobs. The so-called Rural Renaissance of the 1970's was over. Many Rural Americans, unable to earn a decent living, left their communities. Businesses closed, entire towns died, and a valuable piece of American heritage was lost.

The numbers speak for themselves.

- From 1982 to 1987, rural employment growth was two-thirds as fast as the urban rate.
- Rural unemployment averaged almost 8 percent during the 1980's, nearly a full percentage point above the urban rate.
- From 1979 to 1987, real earnings per job in rural areas dropped 7.5 percent while urban earnings per job declined only 4.3 percent. By 1987, rural earnings per job lagged urban earnings per job by more than $5,600.
- Real per capita income growth in rural areas lagged urban income by more than 2 percentage points from 1979 to 1987, further widening the rural-urban gap.
- The rural poverty rate rose 2.3 percentage points from 1979 to 1988, and was 3.8 percentage points above the urban rate in 1988.
- During the 1980's, roughly half of all rural counties lost population. Net outmigration in those counties totalled over 2 million.
- From 1980 to 1986, rural population growth declined. From 1980 to 1982, the rural population grew 1.7 percent. During 1982 to 1984, growth was only 1.5 percent. And from 1984 to 1986, rural population growth had fallen to 0.5 percent. Urban population growth remained constant during the first two periods and even improved during the third.

Dramatic as they are, these numbers fail--as all statistics do--to reflect the personal anguish felt by many Rural Americans during the 1980's. Many saw their jobs evaporate, their livelihoods threatened, and their lifestyles forever changed as impersonal economic forces swept across the rural landscape.

During its investigation of the rural economy, the National Commission on Agriculture and Rural Development Policy saw many problems: families living in poverty, deteriorating health care systems, inadequate skills, poor transportation links, conflicts between the love for nature and the need to scratch a living from it.

At the same time, the Commission saw much that is right with rural people and their communities. Everywhere it went, the Commission saw examples of the ingenuity, pluck, and independent spirit that

have characterized Rural America since it was settled. The Commission visited many rural communities that have recognized their problems and taken effective steps to address them.

More than ever, the fate of Rural America is in the hands of its own citizens. The Commission is convinced that those hands are capable. However, rural communities--because they are small--face serious obstacles. As a result, there is an important, perhaps even critical, role for the federal government to play in supporting these actions by rural people to meet their own needs. Still, the context in which federal help must be given has changed, and the federal government's role must change with it.

This report contains eight recommendations to help the federal government improve the way it makes and implements its policy and programs for rural development. Though addressed specifically to the federal government, these recommendations apply equally well to state and local governments, where the principal responsibility for rural development now lies. Rural development built on federal policy alone cannot succeed. State and local governments must also assign high priority to reforming their rural development policies.

Rural Diversity

Definitions of Rural America abound. What is considered rural in one part of the Nation may seem quite urban to people in another. This report does not propose a single definition of "rural." The Commission recognizes that what we have come to call Rural America includes farms and forested areas, mining and manufacturing areas, isolated small towns and places under the growing influence of nearby urban centers. However, our notions of what is meant by the term "rural" influence our policies for Rural America. If rural development policy is to effectively address real rural needs, a clear understanding of Rural America is essential.

Popular beliefs about Rural America are based on many perceptions. Some, if once true, no longer are. These misperceptions may obscure true conditions in rural areas and divert policies in directions that are inappropriate to modern rural needs. Before effective rural policies can be crafted, we must confront, and refute, these misperceptions.

Most Rural Americans no longer depend mainly on farming for their jobs and income. Agriculture is one of America's principal industries. It is the Nation's source of critical food and fiber, and a major export. In many states and rural areas, agriculture is the leading source of basic income in the economy. Nationally, over 2 million people are employed in farming, and 21 million are employed in some phase of agriculture. However, it is no longer the principal source of jobs in most parts of Rural America. Less than 10 percent of the rural work force is directly employed in farming. In most rural areas, other industries, especially manufacturing and services, have eclipsed farming as a primary source of livelihood among rural people. Farming continues to occupy most rural land, and a special place in the Nation's heart; in some areas, it remains the principal driving force behind rural economic well-being. However, in most parts of Rural America, citizens have come to rely on other industries to support their way of life.

'ural America is more than smalltown, farm-centered Midwestern communities. The national perception of "rural" is heavily influenced by images of smalltown America, popularized in films and television, where the simple life persists. The largest numbers of Rural Americans live in the South, where they are more likely to be employed in manufacturing than in farming, and in the Midwest, where much of the Nation's food production occurs. Still others call Western and New England communities home. Far from being monopolized by farm trade centers, Rural America is made up of a diverse array of places: fishing villages in coastal areas; mining towns in Appalachia

and the West; mill towns in the Southeast; tourist centers near national parks and natural attractions. Different challenges face each of these communities.

Not all of Rural America is losing population. During the mid-1980's, more rural counties lost population than grew. More people moved out of Rural America than moved into it during the just-completed decade. However, these totals obscure the sometimes rapid growth taking place in many parts of Rural America. Areas with high-quality natural amenities--coastline, mountains, a warm climate--attracted large numbers of retirees and vacationers, placing them among the fastest growing areas in the Nation. Despite population losses in some regions, Rural America's population grew overall during the 1980's.

Both growing and declining rural areas face difficult problems. Population losses cause strains for rural communities, pressuring their ability to provide basic services and sometimes even threatening their survival as social and economic units. Growing communities, whose expanding populations bring new tax dollars and vitality, do not suffer from declining services and property values. However, growth, especially rapid growth, brings problems of its own--new residents with values and expectations that differ from those of existing residents; pressure on community services and institutions to keep pace with rising demands; rising property assessments that challenge low-income residents to meet growing tax obligations; and the prospect that new job opportunities may go to new residents, leaving few benefits for long-time citizens.

Many Rural Americans live in poverty. One in seven Rural Americans, mostly in the South, have incomes below the official government poverty level, $12,675 for a family of four. Life among the rural poor does not match the idyllic picture often painted for our minds in popular culture. The rural poor are highly likely to be "working poor," many families having two or more full-time workers whose wages are too low even to yield a poverty-level income. Concentrated in minority groups, the poor live in areas that have been bypassed by economic growth, leaving them few alternatives to the meager jobs they hold. Their inability to afford proper health care results in disabilities that limit their ability to perform the manual labor jobs on which they often depend. Their poor schools provide them with educations inadequate to qualify them for better paying jobs.

Underlying Causes of Rural Economic Change

Despite the crisis-proportion of the problems in the agricultural and energy sectors, neither the hard times brought on during the recession nor the delayed recovery that followed can be entirely attributed to these events. Major structural changes were also at work in the rural economy, and their effect has been significant. In many ways, this fundamental restructuring is having even more profound effects on the future of the rural economy and rural life than the ups and downs that have long buffeted the rural economy. However, economic restructuring occurs at a glacial pace, and its effects are easily obscured by more visible and dramatic cyclical events.

Many of Rural America's economic troubles are deeply rooted in the very features that define rural areas. Among the most important contributors to rural economic stress are the following:

- The ability of the traditional economic base--farming and other natural resource-based industries--to generate income and employment for rural citizens has declined. Improvements in production efficiency and changes in the demand for rural goods have reduced the demand for rural labor. Rural areas are faced with diversifying their economies or dying from attrition.

- Expanded Third World industrial capacity has brought tough new competition for the low-wage, labor-intensive rural manufacturing industries. As a result, many of these jobs are now located abroad.

- The nature of new jobs and industries in the national economy has shifted toward higher tech industries and more skilled occupations. Rural workers, with low education and skill levels, are less well prepared to work in these industries.

- Growing competitive pressures in the world economy have forced the United States to reevaluate many of its policies in an effort to improve national efficiency. In the past decade, numerous industries--including banking, communications, and transportation--were deregulated. At the same time, subsidies to some industries have been reduced. Removing these regulatory protections and subsidies has diminished the ability of rural areas to compete in national and world markets.

- The physical distances and social isolation that separate Rural America from urban centers of economic activity hinder rural businesses from participating fully in the new national economic growth. Major advances in transportation and communications have linked rural areas more closely with the cities, but distance remains a major obstacle to close urban-rural economic relations.

Responding to Rural Needs

Public policies to promote the use of rural space and improve the quality of life for those who live and work in it fall under the heading of rural development policy. In the past, federal rural development policies aimed at encouraging the settlement of rural areas and provided transportation, education, and other services that made life on the frontier bearable. Later, federal policy emphasized raising the living conditions of rural people caught in the jaws of adverse economic cycles by creating work, improving housing, and building needed community facilities.

Today, the needs of Rural America have again changed, so too must rural development policy.

Changing Rural Development Policy Context

When, and if, a rural development policy is formulated, it will be done in a different context than that of the past.

- The New Federalism of the 1980's has led to a rethinking of intergovernmental relations in the United States. We have come to accept that rural development is primarily the responsibility of state and local governments. We no longer expect the federal government to play the lead role in rural development.

- Global competition has put increasing pressure on the U.S. economy to be efficient. Many national policy changes have removed implicit subsidies to industries or areas of the country. Furthermore, there appears to be little willingness to introduce new subsidies.

- The rural economic base is changing. Industries that are important to rural areas--farming, timber, mining, and other resource-based industries--make up an ever smaller

share of the national economy and a declining share of rural employment. Future growth in the rural economy must be centered on value-added activities in these traditional industries and on new industries, especially in services and high-tech manufacturing.

- Many rural industries have thrived on the abundant supply of cheap labor. However, increasing competition from Third World countries means that this strategy can succeed only if Rural Americans accept Third World wages and consequently Third World standards of living. A development strategy that aims to improve the incomes and well-being of rural residents must emphasize higher skill, higher wage jobs.

Barriers to a Rural Development Policy

At present, America has no defined rural development "policy." A policy provides overall guidance and direction to the creation of individual programs to achieve a set of goals. No set of national goals for rural areas has ever been clearly articulated. What exists instead is a collection of narrowly defined individual programs that respond to no clear overriding rationale or strategy. Individual programs are operated in response to immediate issues. At no point in its policy process does the federal government take a comprehensive, long-term perspective on rural problems. Nor are individual program activities given any logical sequencing to address underlying, long-term issues, despite the fact that rural development will probably take decades, rather than years. Reasons for the absence of a rural development policy include the following:

- Rural areas have lost political power as the Nation has become more urbanized. As more and more representation shifts to the cities, Rural America faces growing difficulty in voicing its concerns and convincing urban legislators about its special needs. Consequently, it has been easy for the Nation to overlook rural problems or to assume that Rural Americans, as they have always done, can take care of themselves without outside help.

- The organization of the federal policy process is not well suited for producing comprehensive and balanced approaches to rural development. In the Congress, jurisdiction over rural development is spread over many committees, including Agriculture, Education, Public Works, and Small Business. The organization of the executive branch mirrors the organization of the Congress. As a result, no single committee or department has comprehensive responsibility for rural development. Because responsibility for rural development is so widely shared, it is difficult and perhaps impossible for any single point of leadership to emerge.

- Responsibility for making and implementing rural development policies and programs is divided among the federal, state, and local governments. There has, however, been little effective action to coordinate those efforts. Nor has there been effective coordination between government and the private sector, despite the fact that an objective of rural economic development must be to stimulate more and higher value economic activity within the private sector. As a result, each participant operates independently of the others, sometimes at cross purposes.

Why a Rural Development Policy?

Why should a Nation whose population is predominantly urban care about rural development? The answer to this question lies in the relationship between urban and rural people; each has a stake in the

well-being of the other. To illustrate, we present four aspects of that stake.

First, the health of the rural economy is important to national economic efficiency and security. In the increasingly competitive global economy, the United States simply cannot afford to underuse and, in some cases, waste resources. The land, labor, and capital of Rural America are valuable resources. Its agricultural and timber products are an important source of renewable wealth for the Nation. Failure to efficiently use them hinders the national economy.

Similarly, failure to protect and conserve the valuable resources found in Rural America has negative consequences for our Nation. The loss of wildlife, scenic wilderness, farmland, and other rural resources hurts all people, rural and urban.

Third, one of America's guiding principles is equity. That people should have equal opportunity to basic goods and services--such as education, infrastructure, and health care--and to economic prosperity--good jobs and decent wages--is a fundamental goal in our system. However, the level of financial ability and resolve to provide these opportunities and services differs greatly among the states. As a result, many Rural Americans are now denied that opportunity.

Finally, rural problems can become urban problems directly through migration. Rural people in search of work may move to urban areas, thereby becoming urban people, demanding urban services, and potentially creating urban problems.

Problems in Rural America are not strictly "rural problems." They are national problems that demand national attention and federal action.

Goals for Rural Development Policy

The goals of rural development are inseparable from the definition of rural development. The Commission defines rural development as a comprehensive process involving the economic, social, and physical realms of rural life. Each realm affects and, in turn, is affected by the others. Rural development is a process that enhances an area's productive capacity in a sustainable way. By improving the ability of a rural area and its people to adapt to changing conditions, the process of development leads to improvements in the relative standard of living of current and future rural residents. Development differs from growth, which represents an expanded level of economic activity, but not necessarily an increase in productive capacity.

To achieve a higher level of development within America's rural areas, the Commission believes that the following goals ought to guide national policy for rural areas.

- In a highly competitive, market-oriented world economy, the ability to be economically self-reliant is critical if the rural economy is to generate continually improving jobs and income for its residents. ***Rural areas and people must be economically self-reliant.***

- The world economy has changed rapidly in recent years. Economic change is predicted to become even more rapid. As a result, rural areas must develop the ability to respond rapidly and effectively to changing market conditions. ***Rural areas and people must be able to adapt.***

- The physical environment in rural areas and the cultural heritage of rural people are valuable elements of national life and livelihood, enjoyed by rural and urban residents alike. ***The physical and cultural environment of rural areas should be protected and enhanced.***

Policy Variations

Because Rural America is so diverse, no single policy will fit all regions equally well. To meet the needs of Rural America, rural development policy must be flexible and targeted to the special needs of different regions.

- In sparsely populated regions that remain dependent on farming, the challenge is to preserve the vitality of rural communities and a traditional, community-centered way of life.

- In areas with high concentrations of poor residents, the challenge is to bring economic development that leads to improved incomes and living standards for those now living in poverty.

- In resource-rich areas, the challenge is often to balance national concerns about environmental quality with the need to use the natural resource base to generate livelihoods for those living in the region.

- In coastal areas or where recreational amenities are abundant, the challenge is to manage population growth, assure that the benefits from growth are shared by long-time residents, and protect the natural amenities.

- In most rural areas outside reasonable driving distance from a metro area, the challenge is to gain access to an adequate and affordable range of basic services. Many rural communities are hard pressed to provide such basic services as education, water and waste disposal, and transportation. Many others are losing critical services, especially health care, they once could afford to provide.

With these goals and variations in mind, the Commission makes the following recommendations.

Recommendations

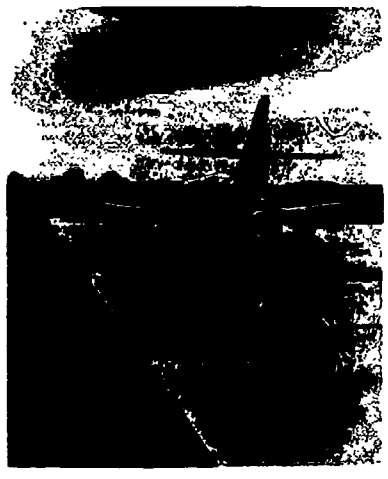
The F deral Government Should Review All of Its Policies To Determine Their Effects on Rural Areas

Conditions in rural areas are often distinct from those of more urbanized areas of the Nation. To avoid actions that inadvertently harm rural institutions and the rural economy, the federal government should adopt procedures that assure the special conditions and needs of rural areas are given adequate consideration in its policies.

Findings

Rural areas are not just small versions of urban areas; their low population densities, small-scale settlements, narrowly based economies, and the great distances separating them from urban centers make them different in kind from urban areas. Because of these differences, federal policies often have very different effects on rural areas than on urban areas.

Many national and macroeconomic policies, while designed to benefit the U.S. economy as a whole, often adversely affect the rural economy in unintended ways. The fragility of rural areas, due to their small population size and lack of economic diversity, makes them especially vulnerable to such policy effects.



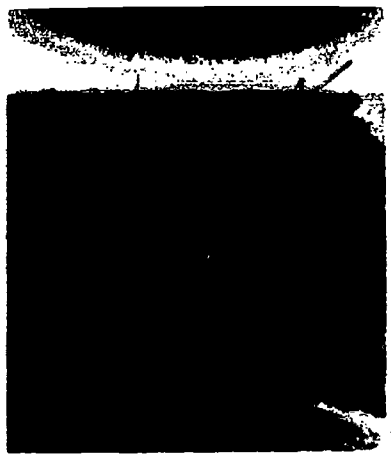
Deregulation of the airline industry, overall has increased the quality and level of service in small rural communities. Still, the problems of infrequent, costly, and inconsistent air service plague many rural areas, reducing their chances to attract businesses that rely on air transportation.

- Federal monetary and trade policies often have exaggerated effects on rural areas. Because many rural areas rely heavily on export industries, they are especially sensitive to changes in interest rates and the exchange value of the U.S. dollar. Fluctuations in those rates can have devastating effects on these industries and the areas which depend on them.

- Present national interest rates, maintained at a high level to attract credit to finance the national debt, put small, locally owned businesses at a competitive disadvantage compared with large national chains. The high cost of credit makes it difficult for rural businesses to maintain adequate inventories at attractive prices and discourages other new enterprises from forming in rural areas.

- Deregulation in the transportation, communications, and banking industries was designed to unfetter the market place and make the Nation's economy more efficient. However, in striving for greater economic efficiency, deregulation has left many rural areas underserved and subject to higher prices than are urban areas.

- Often, national policies make distinctions that have disastrous consequences for individual localities. Freight rate regulations, for example, often create sharp differences in



Economic development and environmental protection increasingly conflict over the use of natural resources, threatening future growth in important rural industries. To assure that both environmental and developmental goals are met, balanced approaches must be taken. At this coal mine on the Navajo Reservation, the land is carefully restored to its natural state after the coal is extracted. Here, new methods of restoring the land are being tested which, if successful, will better protect it from the erosion that is typical of the area.

rates on either side of an arbitrarily drawn line. Industries in rural areas are helped or hurt by the way federal rate regulations are structured.

- Environmental policies that restrict production or regulate production processes can hurt such rural industries as agriculture, mining, and timber and the rural communities that depend on them. Though beneficial to the Nation as a whole, the costs are often disproportionately borne by rural people and rural businesses.

Because the American population is predominantly urban, rural areas lack sufficient political clout to make their voice heard in government policymaking. As a result, federal policies that establish national standards or provide uniform national services often fail to recognize distinct rural conditions that make these standards inappropriate or the delivery of services inefficient or ineffective for many rural places. Sometimes this has created undue disadvantages for rural areas, or has penalized them by imposing unnecessary and burdensome costs.

- The requirements of the U.S. Environmental Protection Agency (EPA) pertaining to wastewater treatment were based on the needs and operating efficiencies possible in large-scale urban applications. When applied to small towns, these regulations often required communities to build facilities that were inefficient in small-scale applications or to meet treatment standards that were excessive for rural settings. Many rural communities were forced, therefore, to take on heavy financial burdens.

- Federal programs are sometimes detrimental to rural areas by imposing inappropriate regulations. For example, the Health Care Financing Administration's (HCFA) certification requirements assume that each small rural hospital should be equipped as well as larger urban hospitals. Sometimes, this has resulted in closing the only hospital within reasonable distance of a rural community.

- Federal health programs sometimes make inappropriate assumptions about rural needs. The differential in Medicare reimbursement rates is based on a mistaken assumption about the cost of health care in rural areas. Despite recent improvements, Medicare reimbursement rates for rural areas remain below those for urban areas, creating disincentives for physicians to locate in rural areas. Programs to offset the difficulties of providing health care in rural areas, such as the National Health Service Corps, are underfunded; some have even been reduced in recent years.

The implementation of government programs frequently assumes that rural areas have characteristics similar to urban areas. Yet the small populations of rural communities, and the distances that often separate them, make

implementing public programs more difficult. Program rules and procedures that fail to account for special rural needs often create hardships for rural communities and reduce the effectiveness of the programs.

Construction standards for fire and safety in large hospitals are sometimes inappropriate for small rural hospitals. In some cases, they impose expenses so burdensome as to force the closure of smaller facilities. While standards for the quality and safety of hospitals are important, they should not be applied so rigidly that rural communities are unable to build and maintain necessary facilities.

- The Job Training and Partnership Act (JTPA) program, a valuable source of job training services for unemployed workers, provides training services through contracts with private sector firms. However, it assumes the existence of a wide variety of private job training suppliers, a condition that simply does not exist in many rural areas, making the implementation of the JTPA program more difficult.

- Many rural areas lack the expertise and resources to successfully compete for available federal program funding. As a result, rural communities are at a disadvantage in gaining access to many forms of federal government assistance.

Recommendations

The following actions would help eliminate unintended negative effects of federal policies and improve the effectiveness of federal programs in rural areas:

- The federal government should examine the probable effects of its policies and programs to assure that they do not have unintended or incidental effects which hurt rural communities, industries, or people. One means of doing so would be to require policy initiatives, including the Farm Bill, to undergo a review of their economic impact on rural communities before they are adopted.

- The federal government should establish communication concerning rural issues among all its departments and agencies, including those whose basic mission is not rural, to improve understanding about the effects of regulations and policies on rural areas.

- The federal government should bring the cost of health care under control and ensure access to affordable basic medical care in rural areas through programs such as the National Health Service Corps and the Community and Migrant Health Centers.

- The federal government should take steps to modify its rules pertaining to rural areas to recognize the special conditions that exist there. As a specific example, HCFA's rules on hospital certification should be modified so that small hospitals are not closed or regulated to death over issues that, compared with a total lack of hospital care, are of little importance. Serious attention should be given to

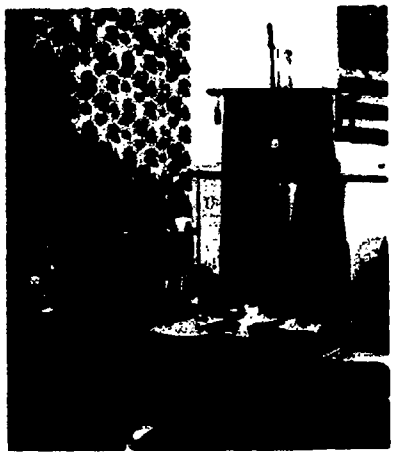
implementing the provisions of the Regulatory Flexibility Act pertaining to rural areas.

- The federal government should allow implementing agencies sufficient flexibility to accommodate special rural needs. As a specific example, Medicare reimbursement rate differentials are based on assumed differences in living costs, but ignore urban-rural differences in size economies. Congress should take immediate action to equalize these reimbursement rates between urban and rural areas.

- The federal government should review current regulations concerning freight rates to eliminate arbitrary disadvantages to individual rural areas.

- The federal government should take steps to reduce high interest rates by reducing the current federal budget deficit.

- The federal government should recognize the fundamental lack of institutional capacity in rural areas. It should take steps to strengthen the ability of rural institutions to understand the effects of national policies and to develop local responses that accommodate both the values that underlie national policies and the economic and institutional limitations inherent in being small and rural. It can do so by investing in programs, such as the Extension Service, Economic Development Districts, and Small Business Development Centers that support the decisionmaking capacity of local people, businesses, and governments.



Throughout Rural America, leaders tackle problems with enthusiasm and hard work. Though critical to community development, this commitment--often by volunteers--may not be enough to meet the many challenges. A lack of institutional capacity and higher per capita costs of government stand as obstacles to economic development in many rural areas. Federal programs must take into account these rural considerations. Federal initiatives are needed to support effective leadership in rural communities.

- The federal government should implement its programs in rural areas in ways that reflect the restricted institutional capabilities that exist in rural areas. For example, in designing grant programs, Congress could consider providing larger per capita amounts of administrative funding for rural areas to compensate for their higher overhead costs. Also, specific program delivery innovations that better fit rural conditions could be undertaken. For example, JTPA program rules could be modified to permit clustering of job vacancies over regional areas or multiple employers so that enough vacancies would exist to make up a program.

- The federal government should take steps to mitigate negative effects of its policies and regulations in rural areas. Such steps should include, where appropriate, special compensation for industries, communities, and individuals whose interests are hurt by policy decisions taken to advance the national interest as a whole.

The Federal Government Should Improve Information about Rural Conditions and Development Strategies

Effective development strategies require accurate and timely information about rural conditions and knowledge about appropriate strategies for responding to problems. The federal government should improve the availability of data about rural areas and promote better understanding about economic development strategy alternatives.

Findings

Far too little is understood about rural problems and effective strategies for dealing with them. Although rural areas have more than 50 million residents, far less is known about them than about urban areas. This lack of information and knowledge hampers the creation of effective rural development strategies.

Statistical data on rural areas are less complete, and are collected far less frequently, than data on urban areas.

The Bureau of Labor Statistics, U.S. Department of Labor, can no longer supply complete data on local employment which the Economic Research Service (ERS), U.S. Department of Agriculture, needs to monitor trends in key rural industries. Although collected at public expense, ERS must first obtain permission annually from each individual state to use the data. This process is wasteful and ultimately limits ERS's ability to inform policymakers about changes in the rural economy.

- Only a limited range of statistical data on the characteristics of the rural economy and population is available between decennial censuses. Data are collected regularly for individual metro areas, but most rural data are collected for only national and regional aggregations. Thus, monitoring conditions in rural areas in different states and regions is difficult.

- Data on rural governments are available only every 5 years, whereas data on urban area governments are available every year. Without accurate and current data on rural governments, effective federal assistance to those governments is hindered.

Often, rural data that exist are not available for use, even by government analysts.

- Data on rural area characteristics are often unreported to protect confidentiality. For example, because rural areas typically have fewer businesses, information on employment in specific industries is not published lest confidentiality be breached.

- Other rural data are not provided to analysts in a manner that is either timely or efficient. For example, data on rural spending under federal programs are available annually, but not in a form that can be readily analyzed.

- States provide reports of employment and earnings levels to the Department of Labor, but under current rules this

information cannot be used, even by other federal agencies, without individual approval by the states.

Policy must frequently be made without the benefit of research results concerning rural conditions and trends and the effectiveness of rural development programs.

- Relatively little research has been conducted to evaluate rural development approaches that work and the conditions under which they work best.
- The results of research on program effectiveness and rural conditions and trends are not readily available to policymakers in forms they find useful. Therefore, policies may not reflect the best available information, especially on what does and does not work.

Statistical data on Rural America are imperative. They tell us what is happening in the rural economy and what needs to be done. Because data for rural places are not as complete nor as readily available as data for urban places, the ability to plan for rural economic development is hindered.

Recommendations

The federal government should take the following steps to improve knowledge about rural conditions and trends and about approaches that are effective in promoting rural economic development.

- The federal government should collect data on rural areas and governments on a level at least equal to that available for urban areas and governments.
- The federal government should make existing rural data readily accessible to analysts both inside and outside the government for the purpose of rural development research.
- The federal government should provide technical assistance to state governments to help rural areas build and maintain their capacity to collect and analyze data to support their own rural development activities.
- The federal government should conduct, on a continuing basis, assessments of the approaches and strategies for rural development and make the results of that research available to the policymakers and researchers at all levels of government and to the private sector.

The Federal Government Should Adopt a Comprehensive Approach to Rural Development

Rural development encompasses many issues. The federal government should establish a policy process that can develop a comprehensive approach to rural development. That process must assure a holistic approach to rural development policy within the federal government and establish effective communication and collaboration among other potential rural development partners in the federal, state, and local governments and the private sector.

Findings

Rural development is more than creating jobs or raising incomes in rural areas. It encompasses all aspects of rural life, including economic well-being, health, education, the environment, and social structures. Each of these is interrelated, sometimes in ways that are not obvious. Rural problems have numerous causes; as a result, single-program solutions are unlikely to be sufficient. To be effective, rural development policies and programs must be comprehensive.

With the help of a consultant, St. John, Kansas, turned a nearly bankrupt hospital into a community asset. In addition to gaining much needed health care, the city now has a new doctor, physician's assistant, and administrator/pharmacist--upper income professionals who purchased three homes and spend their salaries locally.

Many factors affecting rural development complement one another.

- The health and education of rural citizens directly affect their ability to be productive workers and effective citizens. Thus, providing health care and education are integral components of a rural development strategy.

- Facilities for health care and education are important rural development resources that make rural communities attractive to new economic activity. Businesses are more likely to locate in areas with adequate health and education services. Professionals in these fields are educated, concerned citizens, and thus are valuable community resources.

- While farming no longer dominates the economies of many rural areas, agriculture remains a critical source of income to these areas. Rural development strategies for these areas require a careful blending of programs for both farm and nonfarm industries. Although farm programs alone constitute an inadequate rural development policy, farm-dependent areas remain heavily affected by farm policy changes.

- Other amenities such as recreational and cultural facilities add to an area's attractiveness to new businesses.

At other times, the factors that affect rural development compete with one another.

- Economic development and environmental protection both represent important values. In the long run, these values complement each other. A quality environment is essential to continued development. Likewise, only a developed society can afford to protect the quality of its environment. Despite these facts, the two objectives often conflict with each other.

Most often, federal agencies that operate rural development programs do so without cooperating with, or even knowing about, the programs of other agencies. As a result, most programs are implemented as though they are capable, by themselves, of addressing rural development needs. Seldom are rural problems defined in holistic terms. A mechanism is needed to

coordinate the implementation of federal programs in rural areas and thereby provide a comprehensive approach to rural development. The Commission endorses the formation of the Economic Policy Council's Working Group on Rural Development as an appropriate step in creating such a mechanism.

Private sector entities and transactions must also be incorporated in the process. Goods and services, both agricultural and nonagricultural, produced by the rural economy must be able to compete at the national and international level. In order to do this effectively, rural producers must be able to produce a quality good for which there is sufficient demand, and they must have an adequate marketing system.

Conflicts arise in many rural areas over the use and protection of natural resources. In Montana, for example, irrigators, city residents, campers, and fishermen all rely on the same water source. The U.S. Forest Service and Bureau of Reclamation, as well as the Montana Fish and Wildlife Service, each have a say in how water from the Hyalite Reservoir, near Bozeman, will be used. In such cases, close cooperation among all parties is imperative.

Recommendations

The following actions would assure that rural development is approached in a comprehensive manner:

- The federal government should establish an institutional framework that permits a comprehensive, multidepartmental perspective on rural development and that aids effective, continuing communication among its own departments, with state and local governments, and with the private sector.

- The federal government should take advantage of the complementary nature of rural programs and thus better enable those programs to work together.

- The federal government should provide direct loans to finance the provision of services necessary for the health and safety of rural citizens and assure the availability of credit for other needs.

- The federal government should resolve conflicts among its rural programs that hinder development. Such resolution will require flexibility in federal programs.

- The federal government should promote and fund research into environmentally safe methods of agricultural and industrial production, so as to protect valuable natural resources.

- The federal government should promote and fund research to improve the quality of farm and other rural products and increase demand for those products by identifying new uses for them.

- The federal government should take steps to identify and open foreign markets for the agricultural and nonagricultural products of the rural economy.

The Federal Government Should Adopt a Strategic Approach to Rural Development

The range of issues, the complexity of the relationships between those issues, and the scarcity of rural development resources demand strategic approaches to rural economic development. The federal government should establish a rural development policy process that results in planned and clearly defined strategies.

Findings

Rural development involves a wide range of factors, which combine in complex ways. If the various programs of a comprehensive rural development policy are to deal with those factors efficiently and effectively, the policy must yield strategies that weigh the importance of these factors for individual communities, build on local strengths, and develop realistic goals. Among the factors a successful strategy must weigh are the following:

The Cooperative Extension Service in Wisconsin helps communities devise strategies for economic development based on local resources and needs. Through strategic planning, Rowe Pottery in Cambridge, Wisconsin, grew from a small specialized maker of hand pottery to an enterprise with 137 employees and a nationwide market.

- The physical infrastructure in rural communities,
- The range of industrial activity in the local economy,
- The availability of financial capital to underwrite economic expansion,
- The size and skill levels of the local labor force,
- The quality of the local environment,
- The physical and mental health of the local population,
- The quality of local leadership,
- The availability of information to inform local development activities, and
- The equality of the community social structure and the extent of local participation in community life.

America's rural communities face widely varying conditions affecting their chances for achieving economic parity with the Nation's urban areas. All areas have resources, both physical and social, that can contribute to development, but these resources exist in differing combinations, and to different degrees, in different regions. Because the factors that limit the pace of development are not the same in each area, each area's chances for development will be best aided by different combinations of programs.

- In parts of the South, where widespread poverty, low education, and unfavorable social norms limit the prospects for development, rural development strategy must address these issues first.

- In the Midwest, despite high levels of education and skills, rural communities are challenged to maintain their viability; those communities need creative strategies to maintain effective services.

- Some Northeastern communities are growing rapidly. There, growth management and planning are needed to meet the demand for services and retain quality of life.

- In border areas of the Southwest, communities must deal with the problems resulting from non-English-speaking residents and illegal immigrants.

The Strategic Training And Resource Targeting (START) program of the Center for Public Affairs Research at the University of Nebraska is a self-help approach to local economic development. START provides a community with the tools to determine its strengths and weaknesses and helps it develop a strategic plan to improve the local economy. That plan identifies the major issues affecting economic development in the community, strategies for working with those issues, people to carry out the plan, and schedules for action.

The history of past rural development efforts is replete with examples of poorly conceived or unfocused efforts. Often, these accomplished little, sometimes at great public expense. The experience of these efforts points to the need for a different approach to rural economic development, one that takes a strategic approach to investing in rural areas.

A strategic approach to rural economic development requires an assessment of the assets and liabilities of a rural community, the untapped potential the community brings to the developmental process, and the barriers that must be overcome. Such an approach requires an understanding of the causes that underlie barriers to development and approaches that can be taken to eliminate them. Rural development problems are often interrelated in ways that require addressing them jointly if either is to be successfully resolved.

Unraveling the causal chains that limit current development may require a series of actions that attacks prime causes before second-level effects can be addressed. For that reason, rural development resources can be most effectively used by targeting them at strategically determined objectives.

Small rural communities typically lack the institutional resources to formulate their own strategic approaches to rural development. Few can afford professional developers. Most rely heavily on volunteer services from local residents to carry out community development activities. As a result, rural communities can be well served by organizations such as rural electric cooperatives and public and private utility companies that know the local situation and will work with local communities to develop leadership, assess their assets and problems, and create strategies for promoting community economic development.

Recommendations

A major focus of federal policy for rural development should be to promote the use of strategic approaches. However, the federal government has little comparative advantage in working directly with individual rural communities. Instead, the federal government should concentrate on expanding the ability of intermediary institutions to help rural communities address their own problems. Among specific steps that would promote a strategic approach to rural development are the following:

- The federal government should set an example for state governments and rural communities by adopting a multidepartmental strategic approach for its own rural development policymaking.

- The federal government should increase the amount of assistance it gives to organizations, such as the Cooperative Extension Service and the Resource Conservation and Development Districts, that help rural communities understand their problems and opportunities and create effective strategies to address community problems and promote economic development.

- The federal government should increase the rural development emphasis of the Cooperative Extension Service, which has the capacity to provide information and technical assistance in all rural counties.

- The federal government should encourage communities to work together in rural economic development by supporting regional organizations and by giving preference in its assistance programs to proposals that include multicommunity or regional approaches to local development.

- The federal government should encourage experiments with new forms of multicommunity cooperation such as community clustering and should widely disseminate the results of these experiments.

- The federal government should give broad visibility to successful examples of economic development strategies created by rural communities as an inspiration and example to other rural communities of what can be achieved by well conceived local effort.

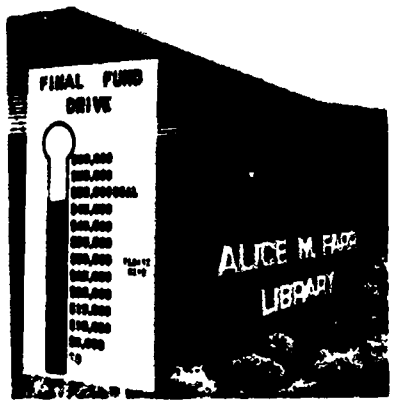
In sparsely populated areas, communities that work together and share resources are better able to provide services to their residents. Regional approaches to economic development can eliminate unnecessary duplication and take advantage of economies of scale, making possible a level of services that would otherwise be too costly to sustain.

The Federal Government Should Foster Better Cooperation Among Rural Development Participants

To make the most effective use of limited rural development dollars, the players in rural development--federal, state, and local governments, private enterprise, and nonprofit organizations--must form effective alliances to coordinate their efforts and collaborate in joint activities.

Findings

The comprehensiveness of rural development issues means that no single government agency, task force, or private group is capable of successfully promoting rural development. Broad-based support and cooperation are imperative to effectively deal with rural development needs.



When the relevant parties get together, effective action can occur. The citizens and businesses of Aurora, Nebraska, a town of 3,800 located 80 miles west of Lincoln, came together to build a library, museum, and chamber of commerce building. Their slogan: "We got out our checkbooks and put on our overalls."

Seldom has a cooperative approach been taken to rural development. Government agencies typically operate their programs in isolation from those of other agencies. Where cooperation occurs, seldom are more than two organizations involved.

- Though the problem exists at all levels of government, the need for improved coordination begins at the federal level, which is not well organized to make comprehensive responses to rural development issues. The problem is rooted in the organization of Congress, where responsibility for rural development is divided among numerous committees and subcommittees. The agriculture committees officially have responsibility for rural development legislation, because of the historic dominance of agriculture in rural economies. In recent decades, as rural economies have diversified into other sectors, other committees--among them the education, public works, and small business committees--have concerned themselves with the well-being of rural communities and rural people. Intercommittee rivalries and tight rules governing committee jurisdiction have impeded effective cooperation in developing comprehensive congressional responses to rural concerns.

- Responsibility for rural development is similarly divided within the executive branch. Numerous federal departments--among them Agriculture, Commerce, Education, Health and Human Services, Housing and Urban Development, Interior, Labor, and Transportation, and the Small Business Administration--share responsibility for economic well-being in rural areas. Even within the Department of Agriculture, which has lead responsibility for rural development within the federal government, the Extension Service, Farmers Home Administration, Forest Service, Rural Electrification Administration, and Soil Conservation Service each operate significant rural programs that are not effectively coordinated with each other.

- During the 1980's, state governments took increasing responsibility for rural development in response to federal program cutbacks and severe rural economic conditions. Although some states have created special agencies and commissions to coordinate their rural programs, similar problems exist at the state level as well.

- No institutional mechanism exists for regular intergovernmental communication on rural issues between the federal and state governments.

Communities that cooperate with one another can better provide more services, and at lower cost, than individual communities can provide on their own.

- Many rural communities try to go it alone when they can afford neither the complete range of services their citizens want nor the management skills needed to conduct effective development programs.

- Rural problems often do not respect political boundaries. A problem in one county may also be a problem in the county next door.

On January 22, 1990, the Presidential Initiative on Rural Economic Development took a step toward innovation in the federal rural development effort. The cornerstone of the initiative is the creation of Rural Development Councils in each state. Beginning with eight pilot states, councils will be formed with representatives of each department and agency that administers rural development programs within that state. The goal of the councils is to promote cooperation and form partnerships among federal, state, and local governments, and with the private sector. Those partnerships can then lead to a comprehensive and strategic approach to rural development, one that takes into account the particular needs and conditions within each state.

Recommendations

The following initiatives would promote improved cooperation in rural development efforts:

- The federal government should establish effective, continuing communication among its own departments and with state and local governments and the private sector by continuing the current initiative to use the Economic Policy Council as a forum for identifying and resolving interdepartmental rural development issues.

- The federal government should coordinate all of its rural development efforts through a single entity, such as the Economic Policy Council, and undertake joint activities and shared administration of its rural programs.

- The federal government should encourage regional approaches to rural development, such as multicommunity clusters, through demonstration programs and by disseminating information about the benefits and costs of such approaches.

- The federal government should create a framework within which cooperative federal-state-local activities can be undertaken to promote rural development.

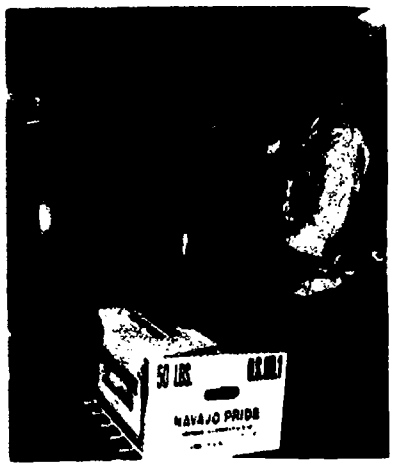
- The federal government should recognize the leadership shown by many states in the area of rural economic development and carefully weigh the priorities set by the states when establishing strategies for the use of its own resources.

The Federal Government Should Incorporate Flexibility in Its Policies Relating to Rural Areas

Conditions in rural areas are exceedingly diverse. What works in one rural area may not work in another. The federal government must ensure flexibility in its policies to accommodate differing local needs and conditions.

Findings

Some people talk of Rural America as if it were uniform. In fact, there is great diversity from one region to another. Rural policies must be flexible to avoid more of the unintended negative effects and ineffective development strategies discussed in the first recommendation. Diverse conditions mandate diverse solutions.



Despite the success of the Navajo Agricultural Products, Inc., enterprise, the Navajo Nation faces many obstacles that result from its system of land tenure. All land on the reservation is tribally owned. Thus, nontribal businesses must lease from the tribal government, a long and sometimes frustrating process. Governments at all levels must be sensitive to the business climate they set with regulations and programs.

The conditions in Rural America are truly diverse.

- Many areas of the rural United States have been losing population, but many others have been growing, some rapidly.
- In some areas, slow economic and population growth is the principal concern; in others, job growth is occurring, but only in low-wage industries that contribute little to raising the living standards of rural people.
- Many rural communities lie within commuting range of a large city, and some are threatened with losing their rural identity as urban sprawl reaches toward their borders. Still others, sparsely populated and located far from even a moderate-sized city, risk losing their vitality.
- Rural areas differ in their economic bases. Some depend primarily on agriculture, but many others depend on mining, manufacturing, services, or government.

No single set of policies fits all rural places well.

- Farm programs are important to farm-dependent areas, but may mean little to a rural area whose economy is based on mining or manufacturing.
- Rural areas vary widely in their educational characteristics, which greatly affect their chances for economic development.
- Rural areas that are located in remote areas, far from urban centers of economic activity, or that are sparsely settled, have very different development prospects than close-in areas, or areas with larger populations.

Rural diversity, and the consequent need for flexibility in development approaches, suggests a "bottom-up" approach to rural development.

- State and local governments, with technical and financial assistance from the federal government, are in a better position to design and implement effective rural development strategies.

Recommendations

To assure flexibility in rural policies and programs, and thereby account for diversity of conditions, the following steps should be taken:

- The federal government should promote awareness of the diversity within Rural America and the implications of that diversity for the design and implementation of policies and programs.
- The federal government should incorporate flexibility in the design and implementation of all its programs.
- The federal government should encourage state governments to assume greater responsibility for rural development programs and assist states by supporting their efforts.
- The federal government should encourage greater flexibility in policymaking by decentralizing more decisionmaking authority within its own programs to its state-level offices.
- The federal government should conduct research to develop technologies and information that support the ability of small and medium-sized rural enterprises, including farm enterprises, to operate profitably.

Conditions in Rural America differ widely. To meet local needs effectively, government programs and policies must be flexible. The federal government can promote flexibility by supporting state government efforts in rural economic development and by decentralizing more authority to its state-level offices.

The Federal Government Should Promote Innovation and Experimentation

Rural development is not well understood and therefore subject to the reapplication of old, often inappropriate approaches. The federal government should foster the formulation and application of innovative policies, strategies, and programs for rural development, and encourage replication of proven successes.

Findings

Despite rural development's long history as a part of federal policy, it is not well understood. The key to unlocking the mysteries of rural development is experimentation and observation. Little systematic knowledge to guide local development is available. Many rural communities are faced for the first time with making a living from something other than their traditional economic base. Few rural development programs have been evaluated. Many local leaders find that their rural development efforts are starting from scratch; there are few building blocks.

Experimentation will provide help for those communities using it and provide building blocks for the future. Effective rural development requires some trial and error.

The Micro Enterprise Fund of the Black Swan Center at Warren Wilson College in Swananoa, North Carolina, is a prime example of innovative service delivery. The fund, based on a Third World example, lends money and provides technical and managerial assistance to very small businesses. Each borrower belongs to a peer group with four other small business owners. Together, the group goes through a five-step training schedule. This schedule provides the group with business information and also serves to form a bond among the members. After completion of the schedule, groups are encouraged to continue meeting together to share information and advice. The group then decides which two of its members should receive the first loans. Only after those borrowers have been current on repayment for 2 months may the others receive loans.

- Evaluations of rural development strategies are limited. In some cases, controlled experimentation and analysis are the only way to determine what works and what does not, in terms of policies, programs, and organizational relationships.

- Finding out what does not work is just as important as finding out what does, provided the results of that discovery are shared so that others may learn from the mistake and avoid duplicating approaches that do not work.

The ability to design and implement innovative programs and partnerships is limited under current organizational structures. Innovation and experimentation are risky to the organizations that undertake them.

- Programs are often pressured to produce specific results: create a certain number of jobs, serve a certain percentage of the population, or raise regional income by a set amount. While goals are important, programs should not be compromised to meet those goals. The knowledge gained from honest attempts that fall short of goals is valuable, and program managers should not be discouraged from reporting it by fear of punishment.

- New ideas can occur anywhere. Special efforts are needed to identify excellence wherever it occurs and to adapt new ideas to new settings.

- New partnerships and relationships can foster the identification and application of innovative ways of doing things. Organizations, both inside and outside of government, need to reach out and observe what others are doing and develop creative new partnerships.

Innovation in the economy is the mechanism by which economic development occurs, leading to improved products and services and, ultimately, to higher incomes for individuals and a higher standard of living for the society as a whole. Successful rural development programs need a climate in which innovation is encouraged and rewarded and where failure is regarded as a byproduct of experimentation, rather than something to be punished.

Recommendations

To foster innovation and experimentation leading to improvements in rural development methods and strategies,

- The federal government should promote innovation and experimentation on multiple fronts. The tools available for such promotion include research funding, demonstration projects, awards, technical assistance, and marketing promotion.

- The federal government should be willing to bear a certain amount of risk in its own programs and not punish honest attempts that fail to meet certain objectives, yet provide valuable information.

- The federal government should carefully evaluate its rural development experiments and widely disseminate its findings.

- The federal government should establish innovative alliances among rural development players. The Presidential Initiative on Rural Economic Development, if pursued aggressively, can provide a highly visible example of innovative relationships.

- The federal government should establish an awards program to give national recognition to individuals and organizations that promote creative new approaches to rural development.

The Federal Government Should Make Education a Major Component of Its Rural Development Policies

An educated population is an essential ingredient to improving conditions in Rural America. The federal government should take steps to improve education and training for rural citizens and integrate those programs with other rural development programs.

The education and skills required by high-tech industries place new demands on rural schools. The days of relying on low-wage, low-skilled labor to attract industry to Rural America are coming to an end. Foreign competition for those jobs is great. Instead, rural schools must prepare students to compete in the new technology-intensive economy.

Findings

People are Rural America's best resource. If Rural America is to develop, that resource must be enhanced and better used. Rural people must be equipped to fully participate in all phases of the development process, from the skilled worker to the entrepreneur, from the planner to the policymaker. Only then will Rural Americans be able to realize their full potential and in so doing achieve and sustain a standard of living comparable to their urban counterparts. Only then will the Nation be able to use all its resources to their fullest potential. Only then will there be equity between urban and Rural Americans.

Education and training are more important than ever before to growth in rural income and jobs. High-paying jobs demand high levels of skill.

- Rapid technological changes in production techniques have increased the level of education and skill necessary for workers. Today's manufacturing employee must be able to read technical manuals and operate computerized machinery.

- Today's global economy means that workers in Rural America must compete with workers in developing countries. Since wages in these countries are lower than in Rural

America, to be competitive Rural Americans must be able to do the job better than their foreign competitors.

- Many services jobs require few skills and pay low wages, but the fastest growing segment of the services sector is among the high-paying business services. These services jobs usually require high skills in such fields as accounting, engineering, and law. Although most of these high-skill services jobs are opening up in big cities, there is increasing evidence that at least some business services can be exported from rural areas to urban customers.

- Small businesses generate the majority of new jobs. Establishing and operating a business requires business knowledge and skills, often not present without special training.

- Most new labor force entrants in the next two decades will be female or minority. Overall, these two groups have historically lacked the levels of education and training of white males, making it more difficult for them to meet the Nation's growing need for skilled workers.

Rural schools lag urban schools in preparing students to fully participate in all phases of the development process.

In the South, more than any other region, low job skills in the work force attract industries that rely heavily on unskilled labor. Areas with large concentrations of unskilled workers will not be attractive to industries that offer higher wages and better career potential until the work force has greater skills.

- The high cost per student of education in low-density rural settings means rural schools have trouble offering the same range of courses, especially advanced and specialized courses, as urban schools.

- Some states offer compensatory funding to offset higher rural education costs, but most do not.

- Rural taxpayers, seeing their educated young leave home in pursuit of better jobs, are often reluctant to invest local tax dollars in education.

- Rural students raised in economies based on low-skill manufacturing or resource extraction often see little connection between education and high-wage jobs. Thus, they have little incentive to pursue education beyond the minimum state requirements.

- Schools in areas with high concentrations of migrant labor face special and difficult challenges from the constant flux of changing students. Likewise, the children of migrant workers must cope with moving from school to school, often missing class time.

The education system--its physical facilities, programs, and personnel--is important to rural development beyond the training it provides.

School buses, along with other equipment and facilities, are a valuable development resource. When not transporting children to and from school, they can be used to support development programs by carrying citizens to meetings, linking rural passengers with other transportation modes, and taking elderly residents to health care appointments. The scarcity of resources in most rural communities means that all available tools must be used as efficiently as possible.

- School facilities--buildings and equipment--are valuable assets that can be used to support other programs and activities when not used to educate youth.

- In many rural communities, the school system is the largest employer and biggest source of expertise and leadership. The school not only has a major effect on the local economy, it also has the potential to play a major role in development efforts.

- Although usually not a part of the formal educational system, libraries can be important assets to rural communities by providing information about development options and serving as hosts for electronic links to the outside world.

Recommendations

In recognition of these findings and to promote rural development through education,

- The federal government should evaluate methods for providing advanced educational instruction in remote, sparsely populated rural areas and demonstrate successful methods of providing that instruction.

- The federal government should establish cooperation between its Department of Education and other departments to ensure that education is a part of federal rural development policy.

- The federal government should study methods for developing entrepreneurial skills within the rural population and demonstrate effective techniques to assure that they are widely disseminated.

- The federal government must strengthen training programs so that they can respond to demands for more frequent occupational and career changes by workers.

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