INCOME AND EMPLOYMENT POLICY FOR RURAL AREAS

Dennis U. Fisher
Texas A&M University

Larry D. Sanders
Oklahoma State University

Economic problems are pervasive in rural America. Limited job prospects and hard times are once again causing rural residents to seek improved economic opportunities elsewhere, a pattern interrupted during the 1970s.

Federal Policies and Programs

Federal policies and programs to improve economic conditions in rural areas have a long history. In the 1930s the Farm Security Administration and the Farmers Home Administration were established to assist low income and distressed farmers. In the 1950s federal policy took a broader focus, attempting to locate industry in rural America through low interest loans, key public facilities, training and planning grants. Most recently the Rural Development Act of 1972 established a variety of programs including research grants to improve the economy in rural areas. Many of the programs outlined in the act were not funded as economic conditions in rural America improved in the 1970s.

Once again rural areas are falling behind. But rural areas of the 1980s have changed. They are more diversified, no longer depending exclusively on agriculture. While diversified, they tend to be regionally specialized depending on manufacturing, tourism and retirement as well as the traditional natural resource based industries. They are more susceptible to changes in macroeconomic variables—interest rates, exchange rates, inflation—and changes in the international economy. Not all rural counties are doing poorly. Those dependent on tourism and retirement tend to have fared better than other rural counties. Most rural counties have not participated equally with their urban counterparts in the recovery of the national economy.

Reasons for Failure

Despite past attention, policies and programs aimed at stimulating economic development in rural areas have fallen short of their mark. Several reasons are suggested for this failure:

- Policies have been narrow and sectoral, focusing on agriculture and extractive sectors of the economy and on attracting manufacturing industries to rural areas. Two major negative impacts result. The economic restructuring needed in rural America is hindered rather than facilitated and only a few of the broad spectrum of rural communities are helped.

- Old and inappropriate infrastructure is pervasive throughout rural America. For example roads and bridges constructed in the first part of this century will not accommodate the large vehicles used today. Water and waste disposal systems constructed earlier tend to be obsolete and out-of-repair. Additionally, new high-technology infrastructure such as modern telecommunications systems are not available in most rural areas. This puts rural areas at a competitive disadvantage in attracting and retaining industries dependent upon such technology. Limited taxing capacity in sparsely populated areas may preclude investment in the infrastructure necessary to restructure the economy.

- Many rural areas lack an adequate human resource base. Years of selective outmigration have left rural areas short of human capital for private business management and for public leadership. Most firms in rural areas are small which means an owner/manager must handle management of many areas that would be relegated to departments staffed by specialists in larger firms found in urban areas. Due to the sparse population and small number of businesses, specialized business services and many training programs are not available to rural entrepreneurs. Local government suffers from some of the same limitations as private business—volunteer and part-time people, often without adequate training and with few specialized services commercially available.

- Capital sources may be inadequate and most likely will be in the short run. Rural financial institutions have experienced a crisis stemming from the agricultural crisis of the 1980s, the precipitous drop in mineral, timber and energy prices, and the recession in the national economy during 1980s. Those institutions with portfolios including a high proportion of loans to troubled industries have experienced severe liquidity problems. Cash flow in these industries has been inadequate to service debt and the value of collateral has dropped sufficiently to make restructuring impossible in many cases. There may not be sufficient funds in many areas to finance important business and economic development projects. Additionally, there is concern that large nonlocally owned banks will be less responsive to the credit needs of farmers and entrepreneurs than

locally owned banks. Capital may indeed be more mobile but there is no clear evidence that nonlocally owned banks will be more or less responsive to local credit needs. There is a similar concern over nonlocally owned businesses.

While many of the policies and programs designed to encourage employment and income generation in rural areas must be implemented at the state and local level, federal legislation and funding will be critical to meeting rural development needs for several reasons. The benefits of rural development are disbursed throughout the nation as people trained in local areas move. Coordination of rural economic development policy at the federal level will reduce the waste associated with interstate competition.

Policy Options

Rural economic development policy options addressing the changing needs of rural America fall in four broad categories:

1. Broaden the focus of current rural economic development programs. Examples include, but are not limited to, targeting federal and state procurement dollars for businesses in rural areas; identifying and developing foreign markets for rural based businesses; providing tax incentives, grants and loans to stimulate development of new retail and service businesses in rural business districts; and supporting research to develop new products from resources available in rural areas.

2. Provide financial support for development of appropriate business infrastructure. Governments have traditionally played a key role in financing key infrastructure facilities and services including highways, roads, bridges, sewer and water facilities and industrial sites. Assistance is now needed to fund emerging new business support services such as telecommunications facilities as well as upgrading and modernizing some of the traditional infrastructure.

3. Provide suppport for rural human resource development. Human resources are key to a strong rural economy. Educational and technical assistance programs are needed to develop business management, entrepreneurship and community leadership skills. Significant inroads into providing the quality and quantity of human resources needed in rural areas is unlikely without federal cost sharing in these programs.

4. Improve access to financial capital for starts and expansions of rural enterprises. Financial assistance through loans, grants and tax incentives have historically been part of government policy. Some of the traditional programs like the Small Business Administration's loan guarantee programs are not as readily available in rural as in urban areas. Many rural financial institutions, community development groups and business people do not utilize presently available

programs simply because they are unaware or find the procedures confusing. Additionally, enabling legislation could provide for the development of local capital pools such as those utilized in the Main Street programs.

Rural economic development policies and programs need to be flexible enough to address the diversity and changing conditions in rural America. Federal funding, enabling legislation and monitoring will be necessary because the problem areas reach across state lines and the benefits of rural development are widely disbursed. State and local governments are better equipped to identify needs and opportunities in their rural regions. Coordination and partnership among the levels of government is essential to addressing this area.

Discussion Summary

The group discussed the possibility of genetic limitations in communities decimated by outmigration. One discussant pointed out that no studies have indicated any genetic predispositions, but rather social environment, as the major factor. To that end, investment in human capital through infrastructure that improves the social environment may be an appropriate policy focus.

Another discussion point concerned the reality of inadequate capital resources in rural communities. Some concern was voiced over the possible lack of agriculturally-trained personnel in the larger banks that have survived the recent crisis. This, coupled with the apparent loss of a competitive edge among farm credit banks, has/could lead to a bias away from agricultural lending. Others, however, saw this as an over-rated problem, noting the willingness of larger urban banks to look for agricultural business, and, further, that many ag loan officers that had left a scaled-back ag credit sector had gone to these more urban nonfarm banks. One member suggested that capital itself is not a limiting factor. Instead, imagination and creativity are scarce, and teaching such skills in rural publics is a difficult challenge. The need for a business plan is more important than ever today and agriculture is being forced to join the rest of the economy in sound business planning.

In response to the four categories of policy options, several specific points were made by the group and a case study of one of the group members was discussed. One member felt that more attention needs to be devoted to transportation systems as basic infrastructure problems. Michigan's Upper Peninsula was offered as a case study. The residents and communities are suffering from economic malaise. Roads are either nonexistent or inadequate for commercial enterprise. Air shuttles are costly. During the discussion of the case study, several questions were posed:

- Are there some rural areas that should not/cannot be developed? Are the time constraints of agency specialists the sole criteri-

on for deciding who gets help? Should there be developed a set of criteria, a decision-making process and selection of who is involved to perform a kind of social triage? Does policy aim at improving the average, or assuring success for the best, opportunities?

- What institutions are in place and are these a help or hindrance? Do new institutions need to be developed? Will the hiring of an economic development manager help or harm the motivation and sense of responsibility of community members? Would a "demonstration plot" approach work, with a successful pilot development program applied to a community and its successes held up as a lab for others? Has adequate attention been devoted to considering the comparative advantage of the area? Consider the importance of defining the unit of analysis. Is it larger than a community? How broad is that unit's perspective on problem definition and solution?

- What is the role of extension in such a case? Suggestions included: providing a better understanding of the problem; building basic family skills; developing an economic profile/evaluation; using local extension to link people with needed resources; facilitating the community/state in problem definition, evaluation of alternatives and consequences, planning and pursuit of support to achievement of goal.

In summary, the group's lively interchange may have revealed more questions than answers, but the discussion and resulting questions may be a catalyst for professional role clarification.