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8-53

Analysis of Proposals for Area Assistance and Development Programs*

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(Presented to the subcommittee on Production and Stabilization of the Senate Banking and Currency Committee, Washington, D. C., February 24, 1958)

I.

In order to indicate the limitations with which I come to this discussion, I would like to point out that in my professional work I have dealt primarily with the impact of urban industrial development on agricultural income and employment. My work on the purely industrialization aspects of area development work has been rather limited, although I have participated in closely related work during a period of employment in the Industrial Economics Branch of the Tennessee Valley Authority.

Before proceeding to a discussion of the specific proposals, that are now being considered by this subcommittee, I would like to discuss the economic framework within which economic development, particularly industrial development in areas characterized by chronic unemployment and rural underemployment, takes place.

First of all, it is clear that local-urban industrial development is an essential ingredient in the solution of agriculture's underemployment problem.

The evidence is quite clear that the level of agricultural income is closely related to the extent of local urban industrial development. This is particularly clear in the Southeast and in the other areas designated by the Secretary of Agriculture as generalized problem areas.

Furthermore, it is clear that the positive impact of urban industrial development is exerted directly through increased employment of farm workers and only to a minor extent through the increased demand for farm products.

* In preparing this statement the author has benefited from discussion with J. C. Bottum, J. B. Kohlmeyer, J. K. McDermott, and L. T. Wallace of the Purdue Department of Agricultural Economics.

The reason for this favorable affect of urban industrial development on agriculture is not difficult to identify. In much of the area characterized by substantial agricultural underemployment typical replacement ratios for rural farm males in the 20-64 age group is running slightly above 200 during the present decade. This compares with an index of about 135 in the rest of the country. In other words, in most areas characterized by agricultural underemployment, young men are still entering the labor force at a rate that is more than double the number of farm workers that would be required to replace existing farm operators and hired farm workers as they retire and still maintain the farm labor force at existing levels. Thus, over half of the young men from such areas must find off farm employment simply to maintain the number of farm operators or farm workers at existing levels. In addition, further declines in farm employment are required in all of the underemployment areas if farm income is to be brought into line farm incomes generally.

In areas such as the Northeast and the North Central regions, where farm employment runs in the neighborhood of 5 - 15% of total employment the transfer of the required number of farm youth and farm workers into the local non-farm labor force is relatively easy, even in the absence of spectacular rates of growth of non-farm employment. In the areas characterized by substantial underemployment, where farm employment runs in the neighborhood of 40-60% of total employment, exceptionally rapid rates of growth in non-farm employment are required to permit the absorption of the surplus farm labor force locally.

In the absence of an adequate rate of growth in local non-farm employment long distance migration presents the only solution to the underemployment problem. Long distance migration, left to itself has rarely been sufficient to reduce the surplus labor force sufficiently to bring about a substantial reduction of earning differentials between the surplus and deficit labor areas. The expansion of local industrial employment is necessary if incomes of farm

and non-farm workers in such areas are to be brought in line with incomes of comparable workers in other parts of the economy.

The second question to which I would like to address myself is the extent to which decentralization of industry to areas identified in S-864 and S-1433 as industrial redevelopment areas is not occurring in the natural process of economic growth.

The answer to this question is that it is not.

On the one hand, there is little doubt that the long term trend toward location of a larger share of the nation's industrial employment in the less industrialized regions is continuing. The share of the nation's total industrial employment located in the New England, Middle Atlantic and East North Central regions has declined. The other regions have increased their share of manufacturing employment with the most dramatic increases occurring in the Pacific and West South Central regions.

It is clear, however, that the dispersion of industrial employment to the less industrialized regions that has occurred in recent years has not been accompanied by any substantial increase in the proportion of total manufacturing employment located in the smaller cities, towns, and rural areas of the less industrialized regions.

For the United States as a whole, the percentage of manufacturing employment located outside of the standard metropolitan areas was almost exactly the same in 1954 as in 1947.

There are some important differences in location patterns among the several regions. The contrast between the five states of the East North Central Region and the 11 states of the Southeast is especially interesting. The East North Central region, with approximately two-thirds of its total industrial employment located in the very large industrial centers experienced its most rapid (percentage) increase in industrial employment during the 1947-1954 period

outside of the standard metropolitan areas. The Southeast, with three-fifths of its industrial employment located outside of the standard metropolitan areas experienced its most rapid (percentage) increase in industrial employment in the larger cities of the region.

It is also interesting to note that a substantial share of the Nation's small town or rural industrial employment is already located in the Southeast. With only 14 percent of the nation's total manufacturing employment the Southeast accounts for one-third of all manufacturing employment in the nation that is located outside of the standard metropolitan areas.

The importance of small town and rural industrial employment in the Southeast can be traced in large measure to the importance of lumber and textiles in the regions economy. With a major proportion of total national employment in these industries already located within the Southeast it seems reasonable to anticipate that future industrial expansion in the Southeast will tend to bring the industrial location pattern of the region more nearly in line with the national pattern. In the Southeast, the nation's major center of agricultural underemployment, there is a strong basis for expecting industrial growth in the future will be able to depend to a much smaller extent than it has in the past on the growth of the types of firms which have traditionally located in the smaller towns and the rural areas of the region. Future growth will have to depend on the regions ability to attract new types of industry into the area.

The final general question to which I wish to address myself concerns the type of area best suited to development or redevelopment activities. Location theory provides some important insights into this question. Location theorists tend to classify factors affecting location in the three broad categories.

First, cost factors -- including raw material, labor, site and transportation.

Second, market or demand factors -- including the extent, structure and location of the market for the products of the firm or industry.

Three, personal factors -- mainly environmental preference of administrative personall.

In the past, a good deal more attention has been devoted to the cost factors of location than to the market or personal factors. More recent inquiry into the spatial interdependence of economic activity, especially under conditions of imperfect competition, have tended to emphasize the importance of the later two factors.

The declining relative importance of raw material costs in manufacturing, the external scale economies resulting from concentration of industrial activities in urban centers; the growing recognition of the market as a locational factor; plus the preferences of managerial personnel for cultural and civic amenities all seem to favor continued expansion of industrial activity in urban centers of at least standard metropolitan areas size or in their nearby industrial statalites. (The main criteria for standard metropolitan area is an urban center of approximately 50,000 population.)

We have already seen that industrial growth by itself has not, during the post war period, progressed rapidly in the direction of decentralization. The implication seems clear that there are only a limited number of small cities and towns which possess location characteristics sufficiently attractive to serve as a basis for substantial long term urban industrial development. The type of development, for example, that would be sufficient to bring an area into the standard metropolitan classification by 1975.

I would suggest, therefore, that industrial development and redevelopment programs which focus their efforts on the potential urban industrial centers will be more successful than programs centered on areas which are selected by other criteria -- purely on the basis of the current level of income or the magnitude of unemployment or underemployment, for example.

I would also suggest that rural areas or small towns located in the same general regions as the potential centers of urban industrial development have more to gain from a successful development effort, concentrated on the potential development centers, than on unsuccessful or even partially successful efforts concentrated in areas of only minor potential development. Thus, a single area development organization with programs centered around the potential urban industrial center in its area will be more effective than a series of county programs each attempting to capture part of the area's potential employment gains for itself.

I might point out that in Indiana, we have attempted to follow the suggestions of the above analysis with respect to our contribution to the Federal-State Rural Development program. As you know, most of Southern Indiana possesses the characteristics which would result in its classification as either an industrial redevelopment area or as a rural redevelopment area under the provisions of S-964. It is quite similar to much of the Southeast and comparable areas are to be found in Southern Ohio and Southern Illinois.

During the initial months of the rural development program, considerable discussion was centered around the question of what county should receive first emphasis in the Rural Development program. Substantial pressure was exerted to choose a county primarily on the basis of underemployment criteria. A decision was finally made, however, that any agricultural development program which depended for its success on substantial local industrial development would have a poor chance for success in this county. As a result, Perry County, a county located on the Ohio river with substantial industrial employment already and with active and aggressive community leadership was chosen as the initial or pilot county in our program. Our analysis indicated that Perry County has more potential for urban industrial growth than other counties in the same general area and that unemployed industrial workers and underemployed farm workers in surrounding counties would have more to gain by

a successful development effort centered in the Tell City - Cannelton area of Perry County than from unsuccessful or even partially successful development in their own county.

During the time our development activities have been centered on Perry County, substantial employment increases have occurred. Not through our efforts - but through efforts of the local development committee with which our rural development specialists are working. We expect that in the near future an effective area development committee based on a wider geographical area will emerge and that the aggressive leadership of the Perry County group will play an important role in the success of this broader area committee.

II

I will now turn to specific discussion of the four bills:

S-104 (Dirksen); S-964 (Douglas); S-1433 (Martin); and S-1854 (Flanders).

My discussion will center around seven points.

1. Definition of areas.

I would like to strongly urge the inclusion of rural development areas defined on the basis of underemployment criteria within the framework of the act. The problems of such areas are, in many respects, more difficult than many of the areas which would be included when the criteria are stated in terms of unemployment alone. Since the underemployment criteria are somewhat less precise, than the unemployment criteria in S-969, I would like to suggest that the criteria employed by the Secretary of Agriculture in House Document #149 (84th Congress, 1st Session, April 27, 1955) on Development of Agriculture's Human Resources be adopted. (see P. 7)

In line with my previous general comments with respect to the possibilities of local industrial development in small towns and rural areas, I would like to urge that a precondition to loans in rural development areas be the establishment of a local or regional development committee representing an area

which includes at least one urban area with substantial growth potential, areas which are exclusively rural, or which include only very small towns, should be eligible for loans only when joined with other areas, including at least one major urban center into area development organization.

2. Loans for Public Facilities.

The emphasis on financing of public facilities required for industrial development in these two bills is well placed. Our work in Indiana has indicated that lack of public facilities are often a crucial factor in industrial location. I would like, however, to question the desirability of outright grants for public facilities. While it seems desirable to include loans for public facilities in those cases where loans from other sources are not readily available, direct grants for public facilities could lead to less than maximum productivity from use from the allocated funds. I would argue that the willingness of local authorities to undertake the required development of public facilities without the aid of direct grants should represent at least one criteria of positive local interest and leadership.

3. Vocational Training.

I would like to commend the emphasis on vocational training and re-training in the several bills. It is our experience that lack of a reserve of skilled workers has at times been a deciding factor in failure of plants to locate in specific Southern Indiana areas. Lack of training also limits the mobility of workers from areas which have no industrial potential. There is, however, considerable disagreement as to exactly what type of training is required. There is a considerable body of opinion which discounts strongly the value of purely vocational training. We have been told by many plant managers that a high level of general education is more important than specific vocational skills.

Regardless of the type of training the question also rises as to where the training should take place. I would like to propose that re-training payments to individuals not be subject to the individual's continued residence in the re-development area. It might be desirable to establish special criteria for "chronically depressed areas" based on long run underemployment and unemployment criteria. For those areas which have demonstrated long run inability to maintain sufficient employment provisions should be made to permit migrants from the area to receive training at the location to which they migrate as an encouragement to both experienced workers and young men and women just entering the labor force to leave such "chronically depressed areas".

4. Allocation and Use of Funds.

With respect to the adequacy of the funds suggested in the several bills - \$50,000,000 in S-104 and S-1854 and \$275,000,000 in S-964, the experience of the Rural Development Program would indicate some difficulty in getting even as many as 50 to 100 well conceived projects underway in a short period. I would suggest that the program start out with a figure of near \$50,000,000 and expand to the \$275,000,000 in a period of 2 to 5 years.

In my opinion, the two proposals are entirely too far apart on the question of the extent of loan participation by the Federal agency (75 percent in S-964 and 35 percent in S-104 and S-1433). It seems to me that a figure of between 75 and 50 percent would represent an effective test of local interest.

5. Administration Expenses of Local Committees.

I would like to commend the provision of funds in S-964 for administrative use by local development committees. In many of the development areas, lack of competent personnel for development work is an important limitation. A loan or grant to a local development agency, during its

initial 3-5 years, which would enable it to employ a competent full time executive secretary could make an important contribution to the success of funds provided for the more direct objectives of the several bills.

6. Information and Technical Assistance.

Both S-964 and S-1433 provide for technical assistance in evaluating "the needs of, and developing potentials for, economic growth". I believe that the Committee should also consider the desirability of technical assistance in production and marketing for firms located in the "redevelopment areas", particularly those firms receiving assistance under the program. Our work in Southern Indiana would seem to indicate that localized employment is frequently the result of poor management. This is particularly true of small firms which do not have access to the same research and consulting services that are available to larger firms. Technical assistance to small firms is a principle that is generally accepted in agriculture. It seems likely that similar activity could be highly productive in urban areas of business and industry.

7. My final point is with respect to a question which is not raised by any of the bills.

I would like to see a provision directing the Bureau of Employment Security to make special efforts to channel job information from labor deficit areas to the designated redevelopment areas. It is my impression that the Bureau of Employment Security and its related state agencies has failed to develop effective inter-area job clearance procedures. An inquiry should be made into the problem of inter-office clearance. If this feature of the Bureau of Employment Securities Program functions as ineffectively as it has in the past, perhaps direct recommendations should be made for development of procedures to make inter-area job clearance more effective.