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## RURAL DEVELOPMENT IN AN AUSTERE ENVIRONMENT: THE CHALLENGE OF THE EIGHTIES

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It is clear, even to the most casual observer, that the era of intensive spending for rural development ended with the 1970s. The combined effects of inflation and recession, and the efforts of the Reagan administration to reduce government spending to combat these problems, signal the beginning of a new era in rural development. While there has been considerable disenchantment with the morass of unrelated federal agencies and spending programs that have constituted the actors and means in the process of rural development policy, the current milieu seems to have created considerable pessimism concerning the future of rural areas. The degree to which such a pessimistic outlook is justified is debatable, although there is certainly some reason for concern for the short-term human suffering that is already evident as programs are cut and services are reduced.

Yet, the spartan environment created by the Reagan programs may produce salutary benefits to rural development in some unintended ways. This can occur if the nonstrategic, scatter-gun approach to public spending is replaced by a new emphasis on economizing, and if the development of rural America can be contained in fewer and smaller areas. Agricultural economists in research and extension have a vital role to play in the emerging new era.

### CONTEMPORARY FEDERAL PROGRAM CHANGES AFFECTING RURAL DEVELOPMENT

It should be emphasized that the Reagan economic program is primarily designed to combat inflation, stimulate private investment, and reverse the decline in productivity. Without going into the assumed euphoric effects of "supply-side economics," it can be observed that the policy is oriented toward a long-run reordering of national priorities. Furthermore, it has been made quite clear in David Stockman's now famous *Atlantic Monthly* interview that the policy is based on old-fashioned "trickle down" dogma; *i.e.*, if profits increase sufficiently for the rich

and powerful, the poor will eventually benefit (Greider). Thus, it is clear that the programs are not designed to bring about equality of welfare between regions. The latter implies a minimization of the traditional role of the federal government in dealing with structural effects of change (Hoover, p. 258-59).

These observations are confirmed by a listing of the major legislative and executive changes that are now, or are likely to become, policy. The following are gleaned from the popular media and, thus, no attribution is given. Also, they are not listed in any order of surity or importance, nor should they be considered an all-inclusive list.

1. Elimination of all or most of the multistate regional commissions.
2. Withdrawal of federal support from the multicounty development areas, or councils of governments (COGs).
3. Substantial reduction in federal grants and a shift from categorical to block grants.
4. Tighter restrictions on the use of industrial development and revenue bond financing.
5. The 23 percent reduction (by 1984) in personal income taxes, the reduction in the top bracket on unearned income from 70 percent to 50 percent, the reduction of the maximum capital gains tax from 28 to 20 percent, and the 12.1 percent "all-savers certificates," all of which remove money from the tax-exempt bond market by making real estate and common stock capital gains more attractive.
6. Reduction of budgets of a host of federal agencies, such as the Farmers Home Administration (FmHA), Economic Development Administration (EDA), and Housing and Urban Development (HUD), that provide direct assistance to communities.
7. General reduction in federal non-defense

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expenditures, other than Social Security, which promises to rend the so-called "social safety net."

Many other changes could be mentioned that may have indirect effects at least on the development of rural areas, such as decreased emphasis on environmental protection, deregulation of energy prices, funding for education at various levels, and so on. But these, it would seem, may have mixed effects, or they may have different effects on the various areas within the southern region. However, before discussing the effects of program changes, it is necessary to look at rural development as we have known it in recent years.

### **RURAL DEVELOPMENT THEORY AND PRACTICE**

Rural development may be defined satisfactorily as a multipurpose, comprehensive approach to making rural America a better place to live and work (Tweeten and Brinkman, p. 7). While it is possible, and sometimes useful to do so, no attempt will be made to define rigorously what is rural and what is urban, except to point out that it is correct to consider many small towns and even whole counties to be a part of the rural "hinterlands." Furthermore, rural development does not imply becoming urban or suburban in nature, although "growth" generally requires this to some degree.

"Growth" is usually assumed to be associated with, and even causative of, development. This is not necessarily the case; clearly, bigger is not always better. But, communities seeking economic development generally are looking for new expanded employment opportunities for their citizens, expanded tax bases, economies of size in the provision of services, and expanded markets for residentiary goods and services. The assumption is that this growth/development process leads to increased levels of general welfare.

Generally, the desire for development stems from a realization that the area in question lags behind some comparison area taken to be the norm, usually the nation or a region of the nation, in one or more statistics used as welfare and quantity indicators (Perloff, et al., p. 3, 4). Thus, development is viewed as a catching-up process; the indicator of progress is regional convergence. This is from the local point of view.

From a national efficiency viewpoint, societal goals should be more people-oriented rather than place-oriented. First, a lagging region of the nation does not correspond, for any length of time, to a fixed set of people. Second, the place-prosperity approach may be wastefully non-selective in its assistance: like using a shotgun to kill flies (Hoover, p. 259-60). However, during the late

rural development era, the federal government has pumped a lot of money into place-oriented development programs. In fact, regional development programs have become imbedded in the "pork barrel" process, which is endemic to our representative system. The institutional flaws in this process create a situation where a less than zero-sum game may result.

But government expenditures alone do not produce regional development, except in a few cases where large military bases and other government installations constitute a large segment of the local economic base. Government expenditures for resource developments, improvements in community infrastructure, planning, and the like, are usually desired because they "facilitate" growth or improvement of the local economic base. To the leaders, most rural areas' economic base means manufacturing employment. The assumption being that this industrial base produces for export and brings money back into the region, creating multiplier effects that are manifested in increased service and residentiary employment (Tiebout; North). This competition for manufacturing industry constitutes one of the fundamental aspects of rural development as we have known it in the recent past.

Volumes have been written on this competition for industry, its logic, its methodology, and its successes and failures. Industrial location has become a growth industry itself, employing planners, practitioners, and researchers at all levels of government, and in the private sector. There are many generalizations about the process on which there is widespread agreement. Among these is that the competition is highly wasteful, but as in the cigarette advertising controversy of the 1950s, almost everyone agrees that we have to do it because everyone else does it. The logic of employing regional development strategies is sound and well based in economic theory. The madness, it seems, results from a piecemeal acceptance of economic logic; the assumption that development can, and ought to, occur everywhere; and the blind faith that industrialization is a panacea.

### **Rural Development and General Equilibrium Theory**

The basic concept of regional economic development as articulated in neoclassical general equilibrium theory, holds that, assuming perfect competition, resources will move to areas in which they are proportionally deficient, so that their value marginal products are equalized between regions. Thus, if one region, such as the South, or some small part of the South, has surplus labor and a deficit of capital, (a) capital will move into the region to take advantage of the cheap labor, or (b) labor will move out of the

region to increase its productivity, and therefore its earnings, by combining with the relatively more abundant capital in the non-South. The resulting general equilibrium is assumed to represent an optimal situation.

If interregional convergence of resource earnings and general welfare do not result, this is attributed to market imperfections, or to market failure. Market imperfections usually emphasized are imperfect knowledge and lack of mobility, although lack of resource homogeneity, occurrence of monopoly in productive processes, and time lags in adjustment also present important problems. Market failure results from generalized indivisibility (meaning size economies), the existence of public goods and merit goals, and nonappropriability. Insofar as general agreement exists concerning market imperfections and market failure, there is a strong basis for federal-state-local development activity on both equity and efficiency grounds.

Local and state development groups often see the lack of perfect information about the benefits of locating economic activities in their communities as the major problem. When this "ignorance hypothesis" (Leven) is combined with an implicit recognition of capital immobility, state and local bodies see justification for huge outlays for advertising and promotion and for a host of industrial subsidies. The latter consist of tax abatements, free plant sites, free job training, free installation of utilities, access to low-interest public capital markets through industrial revenue bond and general revenue bond financing, and other similar direct and indirect subsidies. The full social costs of these subsidies are of little concern to the state and local entities granting them, since much of the cost is passed along to existing commercial and industrial concerns and citizens who do not realize that they are bearing the cost, or have no voice in the matter. Thus, there are built-in conditions for overspending. There is little doubt that the wholesale adoption of the policy of rural industrialization has resulted in subsidies being paid by communities that cannot afford them to firms that do not need them, or which might have located there anyway (Mulkey and Dillman). In 1976, Summers and others compiled a review of 186 case studies of the impact of locating industrial plants in more than 245 nonmetropolitan locations. Their results are summarized by Jansma, et al. in Volume 3 of the AAEA literature review as follows: ". . . communities in which plants located were likely to experience population growth through increased immigration of those living within a 50-mile radius of the plant. They found little evidence that industrial development increased the level of education in the community. The new jobs often did not go to the local unemployed, or minorities, but to younger workers or experienced workers. An increase in the fiscal resource

base of the community in which the plant located was often outweighed by the increased cost of providing services to the new industry and the community. (Jansma, et al., p. 337)."

While local development practitioners have been vitally concerned with reducing ignorance about their areas and reducing the frictions of movement into their areas, they have been understandably reluctant to foster mobility in the other direction. Clearly, national efficiency gains could be achieved by an implicit recognition that development cannot be achieved everywhere except by very inefficient transfers of wealth between regions. For example, job training programs that prepare unemployed people for competition in national markets, must be financed from nonlocal sources, or underinvestment is expected to result. Education, at all levels, prepares people for migration, as well as for local employment, and for localities, this often constitutes an undesirable spillover of benefits. Without belaboring the obvious, a clear role has been played by the federal government and by multi-state regional commissions. Education, job training, transportation network development, and public health are good examples. The development of the Appalachian highway program to facilitate commuting and migration of people from depressed areas of that region to cities on the fringes is an excellent example of a well-conceived development strategy; local developers likely would not have done this even if they could have.

Because of their overriding concern with economic efficiency, economists have been less than enthusiastic advocates of local industrial development programs (Leven, p. 4). Moreover, agricultural economists have, in some cases, been at odds with other agriculturalists. A case in point was our general disenchantment with the USDA's ill-fated Rural Areas Development (RAD) program of the early 1960s which sought to revive declining rural areas by fostering rural industry in every crossroads community. This effort has been characterized as a "trickle-up" concept of development (Edwards). Well-financed federal agencies engaged in community development activities continue to operate their programs on the assumption that local multiplier effects can be created by place-oriented investments in water systems, sewer systems, city park construction, and repair of potholes in streets, few of which seem to be justified as federal responsibility because of market imperfections or market failure. But, it is well known that agricultural economists are hardly ever called upon to evaluate such programs, even when they are targeted on rural areas and operated by the USDA.

In fairness, it should be pointed out that there is no regulation stating that rural development programs have to be oriented only toward eco-

conomic efficiency as defined and measured by economists. Nor can it be argued very convincingly that economic efficiency is the only criterion to be used in evaluating human resource and natural resource development programs. The process of national economic development itself creates structural changes deleterious to rural areas, a fact not recognized in traditional microeconomic theory. Thus, compensation for rural areas may be justified on both efficiency and equity grounds.

### Rural Development and Diffusion Models

It is useful to consider briefly the types of models that may be characterized collectively as diffusion models. These are not, in my opinion, alternatives to the neoclassical spatial equilibrium model, but an elaboration. These models explicitly recognize the economic and social frictions imposed by geographic space, whereas microeconomic theory treats these simply as market imperfections. This explicit consideration of the spatial aspects of change leads to a recognition that the market may not lead to a convergence across the whole national space in the Pareto optimal sense, but that both convergence and divergence effects may ensue. Thus, policy recommendations may be slightly different.

One such model, the core-periphery model, received a lot of attention in the 1940s and 50s as a description of the relationship between the so-called "core region" or "manufacturing belt" to the rest of the U.S. (Perloff, et al., p. 49; Ullman, p. 155). The core region varied somewhat in definition, but it was generally delineated as the Middle Atlantic and Great Lakes states, which predominated in heavy industry, national headquarters of firms, quality educational institutions, population density, income, and so on. The remainder of the nation, with the exception of a small enclave in southern California, was considered to be a vast, underdeveloped, rural hinterland. The relationship between the core and periphery is characterized as one of technological and economic dualism with the core region having all the advantages of early start, economics of size, and ability to exploit the open, national market. Peripheral areas have only those advantages arising from local demand, natural resource endowments, and openness suitable for such activities as military bases (Ullman, p. 171).

If such a dichotomy existed, it is now presumed to be breaking down. The current Sunbelt-Snowbelt controversy, if taken at face value would lead one to believe that the core area is in incipient decline, that industry is fleeing to the South and West in a lemming-like wave that can only be halted by prohibitive legislation. While information is still incomplete, at least some current research indicates that the predicted relative

demise of the core region is premature and overdrawn (McKenzie).

But a similar model may be applied more usefully to multiple growth centers, such as a national system of cities. These growth centers, along with their connecting transportation corridors, constitute the developed part of the nation's economic space, while rural areas, presumably including smaller cities occupying lower order places in the hierarchy of cities, constitute the periphery (Friedmann and Alonso, p. 3). Each growth center produces beneficial "spread effects," in a trickle-down manner, to the periphery, and simultaneously creates harmful "backwash effects." Backwash effects result from the power, size and importance of the growth center, which operates like a large suction pump, pulling resources, people, capital, and creativity out of the periphery. Whether a particular rural area develops or not is heavily dependent on whether the spread effects of the growth center are able to overcome the backwash effects (Myrdal, Chapter III; Miron). Herein lies the logic of simultaneous convergence and divergence effects from industrialization and coincident regional structural change. Interregional convergence may occur, and in fact is occurring, in per-capita incomes, employment rates, levels of services, and demographics, as the growth centers of the South become more like the core region. Intraregional differences are oftentimes exacerbated, however, because of the weak spread effects created by the relatively small growth centers of the South.

For example, the South Atlantic states are well covered with small-to-medium-sized metropolitan areas, which are growing at rates well above the national average. Cities like Charlotte, Greenville-Spartanburg, Columbia, Augusta, and Charleston are well spaced and connected with excellent highway systems. All of the Standard Metropolitan Statistical Areas (SMSAs) surrounding these cities are near or above the quarter-million "urban size ratchet" assumed to be necessary for sustained growth (Thompson, p. 24; Hansen, p. 249). Yet each is adjoined by counties, or groups of counties, that are "backwash" areas in spite of prodigious local development efforts and infusions of federal funds. These rural counties are not close enough to the metropolitan centers to be suitable locations for industrial plants seeking situation near the hub of economic activity or to become a part of the water, sewer, and fire protection systems emanating from the growth centers. But they are close enough to lose part of their labor force, through emigration and commuting to the growth centers, and their residents begin to look toward the growth centers for entertainment, cultural activities, newspapers, banking services, and shopping goods of all kinds.

Because of slow growth, lack of employment

opportunities, declining agriculture, and selective out-migration, these backwash areas may become progressively poorer locations for industry, rather than better ones, as growth in the general region proceeds. Myrdal describes this process as occurring in "cycles of cumulative causation" that move the region away from, rather than toward, general equilibrium. The negative effect of small growth centers on their rural hinterlands was supported empirically by Stewart and Benson in a study of 85 smaller SMSAs.

Clearly, a conflict arises concerning development strategies. Given that funds for development are limited, do we maximize regional growth by concentrating our investments in the SMSAs where we get the most "bang for the buck," or do we opt for a "worst first" approach, and plow our funds into the areas of greatest need? From an efficiency standpoint, making investments in the growth centers, where self-sustained growth exists, or where it can be stimulated, yields the highest marginal returns (Hoover, pp. 277-80; Friedmann and Alonso, pp. 2-5). And through strengthening the spread effects of the growth centers, the long-run interests of rural areas may be better served than by attempting to stimulate economic activity where the near term prospects appear to be poor. Hansen has suggested an approach in which different types of investments are used. He recommends economic overhead capital (EOC) investments, which he defines as those oriented toward supporting private investment or toward the movement of economic resources in growth centers, and social overhead capital (SOC) investments, focusing on human resource development, in rural areas (Hansen, p. 9). While this approach has obvious appeal to the economist, there is little evidence that it has been applied by the practitioner.

### Development Spending in Practice

While lip-service is given to growth center strategies in federal programs, they are poorly applied, if at all. For example, the Economic Development District program of EDA requires that each district contain a growth center of up to 250,000 population, which is supposed to provide the stimulus for economic development. Each district also must include one redevelopment area, ordinarily a county, which qualifies as a depressed area toward which development efforts are to be targeted (Reid et al., p. 30-36). Given the theory just presented, this is curious practice indeed!

The water and sewer system loan programs of FmHA are another large part of the rural development effort in the U.S. The emphasis here is on so-called "regional systems," but a region usually consists of two or more small communities cooperating in the provision of a service to

take advantage of size economies. FmHA's Area Development Assistance Planning grants program specifies that funds may *not* be used to cover any area in any town or city which has a population of more than 10,000 people (Reid et al., p. 14-17).

The U.S. Department of Housing and Urban Development (HUD) has an urban focus in several related programs, notably the Community Development Block Grant (CDBG) program, Section 8 Housing for low-income people, and the "701" Planning Assistance program. But these are designed as urban-development-oriented programs with little or no emphasis on areawide development. Rather, they are block grant type programs designed by the Nixon administration to replace a number of categorical grants to urban areas, such as Model Cities, urban renewal, neighborhood facilities, and so on, spawned during the 1950s and 60s (Reid et al., p. 47-50).

There exist scores of other categorical and program grants designed to improve human resources, aid community infrastructure, and conserve natural resources. Some of these grants are equally available to states, multicounty areas, and communities of all sizes. None seems to be directly related to a growth center strategy, and no differentiation seems to exist between growth center and rural area programs along EOC vs. SOC lines. If expenditures per capita are higher in growth centers, one might speculate that it is because of: higher concentrations, and thus greater visibility of problem populations; greater political influence, because more votes are represented there; better institutional structures for program implementation; and more active and highly skilled grantsmanship. If any growth center strategy can be found in the *de facto* operation of federal development programs, it is more a result of the implicit recognition of the higher per unit cost of providing transportation, health, sanitation, and other services in sparsely populated areas, than a result of deliberate strategic policy decision.

### EFFECTS OF THE SHIFT FROM FEDERAL TO OTHER LEVELS OF FUNDING

Tomorrow's public policy, like tomorrow's weather, is generally predicted best by what is happening today. But the forecast is obscured substantially by such major changes as the expected shifts in federal spending emphasis and level. The degree to which the several states and local governments will be willing and able to pick up the tab is questionable. Even if state and local governments maintain current levels of expenditure, it is doubtful that programs and processes will remain the same. For example, the multicounty Councils of Governments (COGs), with

all their HUD-related planning programs, have been criticized for bypassing state government; it is unlikely that these will shift to state control without major modification. Similarly, the multi-state regional commissions are bound to experience considerably diminished function, or even expire, without the massive federal funding of the past.

While the states and localities will still compete for the increasingly footloose manufacturing and service establishments seeking hospitable environments, the kinds of inducements offered may be changed materially. The use of industrial revenue bonds will decrease in importance, whether the administration cracks down on their use or not. In the short run, changes in tax and depreciation laws will make other types of investments more attractive to wealthy investors who have always invested in the tax exempt bonds. In the long run, industrial facility financing will become less attractive to state and local leaders when prices of bonds have to be discounted to maintain competitive yields.

Other incentives in the form of local services and facilities also should be less palatable to local people when they begin to see these as being financed with local taxes rather than by "free" federal dollars. Financial incentives will be seen as more in competition with, rather than as complementary to, other community goods and services.<sup>1</sup> In this environment, it will be interesting to see whether the body politic does not come to think in terms of "efficiency" in economic development related programs. It is also possible that rural consumer services, such as water, fire protection, transportation, and medical care, which have been provided as "merit goods" in the past will be considered far less necessary by rural people if financed by local taxes. In a paper presented at the 1982 Agricultural Outlook Conference, Deaton stated that "responsible public policy should view rural development as the process of making a publicly prescribed minimum level of services available on a reasonably uniform basis (Deaton)." While distributive justice requires that all citizens have equal opportunity to work and earn, it is neither required nor economically feasible to provide equality of services to all persons regardless of their residential choice.

Upon experiencing severely reduced resources, state and local governments should seek to concentrate services, and they may look more favorably on recommendations of imposing user fees, full service charges, excise taxes, highway tolls, and the like. Consolidation of local governments may also be considered for efficiency, at least for special purposes where economies of size are obvious, as in the case of water systems and solid waste disposal. Perhaps such techniques as site value taxation, and transferable

development rights, which have been given short shrift in public discussions in the past, will be considered when the need for efficiency through service concentration becomes recognized.

If state kickbacks are not sufficient to replace lost federal funds, and they almost certainly will not be, local governments will have to be given new taxing and other powers. Enabling legislation permitting local option sales taxes and accommodations taxes are now being considered in South Carolina and are already available in some other states. There is increasing realization that the property tax cannot be relied upon for substantial revenue increases; its regressivity and its potential for producing unwanted land use adjustments is widely recognized.

Local governments must also be given new powers for planning and zoning. Countywide zoning is necessary to prevent scattering of commercial and industrial facilities across the countryside, especially if such measures as site value taxation and development rights systems are imposed in municipalities. Also, when interest rates come down, pent-up housing demand has the potential of producing suburban sprawl on a frightening scale. Municipal governments may also have to be given extraterritorial jurisdiction and/or annexation permission over unincorporated built-up areas, perhaps as a tradeoff for exclusive rural zones. Uniform city and county laws will probably be seen to benefit both urban and rural residents.

The states will also find it necessary to provide many types of technical assistance to local governments as they assume new responsibilities and develop new policies. Because of our reputation in applied institutional research and our extension capabilities, state government increasingly will look to agricultural economists for advice, information, and policy analysis. If awareness of the importance of efficiency considerations does not develop spontaneously, we will have to develop that awareness to the extent of our abilities. Several of the agricultural economics departments around the South have developed local government fiscal impact models that provide quick computer output for local governments seeking quantitative estimates of costs and revenues resulting from proposed or anticipated tax, employment, and population changes. There will be many such opportunities in the future. Also, agricultural economists can play an important role in training, advising, and providing information for planners. Planners have almost always lacked the analytical ability and theoretical background that has been the strength of the agricultural economist. In the emerging environment of the 80s, planners will no longer be able to justify their existence by their ability to obtain federal funds.

The United States, and in fact the whole

<sup>1</sup> As of 1981, the South Carolina Association of Counties is on record favoring repeal of the state's five-year tax holiday for new industrial investments.



world, is caught up in a new information era that is reordering activities and settlement patterns at every level. This largely unrecognized phenomenon was described in a recent address by Edgar Dunn to the Southern Regional Science Association. According to Dunn, we are already negotiating a phase shift from the industrial society we have known for 150 years to an information society in which only a minority of our workers are goods producers. Drastically improved information/communications networks are breaking down time and space barriers, so that firms are able to exercise organization and control over space, and production, sales, and management activities are able to find their own best locations. The proportional decline of physical goods production, combined with increasingly inexpensive communications, means that sending-and-receiving-site choices are hardly influenced by transfer costs. This sort of thing, in Dunn's words, "stands traditional Weberian location theory on its head."

If economic activities can be located virtually anywhere and be in instant communication with the rest of the world, will not rural areas necessarily become increasingly desirable? If managers, information processors, consultants, and so forth, can be in contact with all of the scattered activities of the firm via computer consoles in their home offices, will they not have a freedom of residential choice that would have been unthinkable only a few years ago? Is it unreasonable to visualize the kinds of growth impacts that we have witnessed along the rural-urban fringe occurring throughout rural America?

The pressures will certainly be there if rural communities encourage settlements, and there

are good reasons why they might. The tax base, size economies, and similar current reasons for rural growth efforts will still be important, and rural community developers will be encouraged by the increasing footlooseness of industry, individuals, and activities. For example, the poorer quality labor in remote rural areas will become more usable as information and skill increasingly becomes embedded in the machine, which is preprogrammed and reprogrammed by decision makers in other locations.

In conclusion, there is reason to be very optimistic about the future of our discipline. Our role is vital to the integrity of the rural South and to agriculture as an industry, and we will be called upon. While little attention has been given here to agriculture per se, it is clear that the concept of rural development outlined in this discussion is strongly tied to land settlement policy. Without some kind of coherent land settlement policy, agriculture cannot survive in several large areas of the South. We must give up the idea that rural income problems should, or even can, be dealt with by in-place investments in services. Many well-intentioned programs for providing access to services by "the people left behind" have discouraged migration and attracted new rural residents, increasing the demand for more services and exacerbating the problem. It is not necessary for agriculture and rural development to be in competition. If the colleges of agriculture are to achieve the necessary expansion of their clientele base to include all rural people and their communities as has been suggested by Wise and others, we must oppose the idea that the problems of rural areas can be solved by converting them to industrial and residential areas.

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