ABSTRACT

CHANGING FORCES AFFECTING RURAL COMMUNITIES IN THE 1980S AND POLICIES TO HELP DEAL WITH THOSE FORCES

By

Asko Antero Peltola

The number of farms in industrialized countries has been declining continuously over the last few decades. The transition from an agrarian to an industrial society is a complex process involving many consequences to the economy as a whole and particularly to rural regions and communities. The industrial countries have tried to cushion the adjustment process, mostly by using agricultural policy tools, but they have proved to be incapable of preserving the viability of rural areas and recognizing their increasing diversity.

In the U.S., the 1980s reversed the favorable rural growth trends of the seventies. The nonmetro population growth slowed and the traditional sectors of rural areas suffered from unfavorable trade conditions and from the recession of the early eighties. Generally, rural areas in all industrialized countries have become more vulnerable to world market trends.

Improvements in transportation and telecommunications provide rural people and communities with more possibilities for economic development. The social and economic changes taking place in rural areas create both challenges and opportunities for local and national policymakers. A better understanding must be achieved concerning the role of rural areas in the transition from an agrarian to an industrial economy. A successful rural policy must be based on the recognition of increasing diversity of rural areas.

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TABLE OF CONTENTS

LIST OF TABLES

PREFACE

The purpose of this study is to gather background information about rural issues in developed countries, particularly in the United States. It is aimed at contributing to the continuation of my studies in Finland, where my objective is to research the question of what kind of rural policies would be most effective in achieving Finnish rural development goals.

1. INTRODUCTION AND BACKGROUND

The number of farms has decreased drastically in industrialized countries during the last few decades. This decline has been different in each country depending on the history and economic development, but in many Western countries today the share of farming comprises only a few percentage points of employment and GNP.

Traditionally, farming has been the main occupation in rural areas, but with economic growth its share has fallen. The transition from an agrarian to an industrial society has had vast impacts on rural regions and communities, and societies have tried to cushion the adjustment process, mostly by using agricultural policy tools like price supports, etc. However, this process has led to chronic overproduction and consequent large budget transfers to agriculture, but has done poorly in preserving the viability of rural areas.

Recently, especially in the 1970s, there has been increased appreciation of rural areas and more emphasis on rural and regional policy decision-making. The social and economic changes taking place in rural areas create both challenges and opportunities for local and national policymakers. A successful rural policy must, however, be based on the recognition of increasing diversity of rural areas.

1.1. Statement of the problem

For many rural areas in the U.S., the past decade was a period of hard economic times, in contrast to the bright prospects that prevailed in the seventies. During the 1980s, farm financial problems, a decrease in energy prices, and a downturn in manufacturing all contributed to the economic slowdown of nonmetropolitan areas. As a result, the net in-migration trend from urban to rural areas of the 1970s was reversed

and many rural counties faced population loss, a return to the mode of the 1950s and early 1960s.

The population turnaround and rural revival in the 1970s gave some reason for hope to people worrying about the future of rural people and communities. However, the recent decade was in many respects a return to longer term trends that have limited the ability of many rural areas to keep pace with the economic growth of the rest of the society. Increased competition on the world market and continuing improvements in labor productivity have eliminated many jobs in rural areas that specialize in agriculture, forestry, manufacturing, and mining.

The social and economic changes affecting rural areas include the economic problems of farmers and the decline in the number of family-sized farms; the need for an increasing number of farmers to generate off-farm income; the increasing diversity in economic structure; the bias in demographic composition, with relatively few young adults and more than a proportional share of elderly people; the deterioration of the basic infrastructure; and the continuing pressure on the natural resource base (Sauer 1986). However, these changes are not only felt in rural America. Rural economic and social trends, and underlying problems, are remarkably similar in the U.S. and western Europe (Long 1987, Deavers and Long 1988).

The shift from natural resource-based industries to increasing reliance on manufacturing and service industries has left rural areas open to rapid changes in production technologies which appear to have reduced their competitive position in the national and international economy. As a result, the rural economy has become more sensitive to changes in macroeconomic policy, business cycles, and global competition. These events have led to significant adjustment problems in many rural areas endangering their ability to adapt.

1.2. Definition of main terms

One purpose of this study is to identify the elements that are essential for designing and implementing **rural development policy** in an industrialized/developed country. This requires a clarification of basic definitions, which is done below from an U.S. point of view.

1.2.1. Rural

The term 'rural' has many confusing definitions, among which none is commonly accepted (Reid 1989). The Census Bureau defines rural as areas outside of places with populations of 2,500 or more, but the difficulty of obtaining statistics makes this definition unhelpful. A more commonly used definition specifies rural areas as 'nonmetro America.' Thus, all counties that are not Metropolitan Statistical Areas (MSA's) are designated Nonmetropolitan Statistical Areas and treated as rural.

A MSA is a county or group of contiguous counties, usually containing one or more cities with a combined population of 50,000 or more, as defined by the Office of Management and Budget, most recently in 1983 (Reeder 1988). MSA's composed of multiple counties are economically and socially linked by significant levels of commuting. Of the 3,097 U.S. counties, 2,357 are nonmetro or rural (1983).[1]

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[1] Nonmetro areas can be classified further according to their adjacency to or dependency on metro areas. Rural counties split in 3 groups: **'urbanized'** nonmetro counties have urban populations of at least 20,000 (an urban place is defined as any place with a population of 2,500 or more); **'less urbanized'** nonmetro counties have urban populations of 2,500 to 19,999; and **'totally rural'** nonmetro counties have less than 2,500 urban residents. Each group contains **'adjacent'** and **'not adjacent'** counties (an adjacent county shares a common border with a metro county and at least 2 percent of the employed labor force commutes to work in a next-door metro county). See, for example, Dubin and Reid (1988); Frederick and Bluestone (1988); or Reeder (1988).

Today less than 25 percent of America's total population inhabits the 90 percent of land classified as nonmetro (Ryan 1988). Maybe that is why the "...usual images of rural America are much narrower than the reality. Many people think all rural America resembles midwestern farming country" (Reid 1989, p. 355). In fact, nonmetro counties vary considerably and the rural economic base is diverse as well.

All in all, there is no single, unambiguous definition of what is rural in the U.S. (Gilford et al. 1981).[2] Currently used concepts involve so much heterogeneity that they don't serve the research or policy analysis very well (Bonnen 1990). In this study, the terms 'rural' and 'nonmetro' are used interchangeably and 'rural areas' include all counties outside of MSA's if not mentioned otherwise.

1.2.2. Development

'Development' means improving the well-being of people. "Development is a dynamic goal, because measures to improve well-being such as expanding the economic base, improving services, or providing equality of opportunity shift in emphasis through time. The process of development includes essential phases of recognizing problems, mobilizing for action, and planning and implementing means to improve the quality of living [of rural residents]" (Tweeten and Brinkman 1976, p. 4).[3]

The specific categories of development related to nonmetro areas might include: agricultural development, development of human capital, development of infrastructure,

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[2] There are differences in definitions between countries as well. For instance, in the U.S., many 'rural' programs are applicable in nonmetropolitan areas, i.e., settlement areas of fewer than 50,000 inhabitants. In Finland, 'rural' communes are those with fewer than 500 inhabitants (OECD 1988).

[3] Tweeten and Brinkman (1976) use a word 'micropolitan' instead of 'rural'.

development of institutions, economic development, community development, and rural development.[4]

1.2.3. Rural Development

Based on the definitions above, 'rural development' means improving the well-being of rural people, which in this context connotes people residing outside of MSA's.[5]

Tweeten and Brinkman list five major areas in rural development which show the diversity of rural development activities. These five areas include (1) human development; (2) economic development; (3) environmental improvement; (4) community facilities; and (5) coordinating activities. They also identify five levels on which rural development can take place: (1) national; (2) multistate regional; (3) state; (4) substate or multicounty district; and (5) local (1976, pp. 7-8, 11). Their classification demonstrates that rural development is a complex issue and should be viewed as such, even without considering other influencing factors.

1.2.4. Policy

Finally, the definition of 'policy,' as given by Tweeten and Brinkman (1976, p. 33): "Policy implies a course of conduct to achieve certain goals. Policy is a more comprehensive concept than program or action and generally involves coordinated actions or programs." Thus, policy is interrelated with actions, goals, values, and beliefs

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[4] For some of the definitions, see Libby (1986, p. 79).

[5] This definition is somewhat arbitrary and useless, however, because 'rural' and 'urban' development are increasingly tied together and an improvement (or regression) on one has impacts on the other, too. More discussion about rural development is provided in chapter 5.

and the challenge for policy formation is to choose among conflicting or competing beliefs, values, and goals.

Reid and Long (1988, p. 202) emphasize that the term 'policy' is value laden and easily lends itself to ambiguous use. According to them, the word's first and most restricted meaning is a "guiding and consistent course of action." And the second, broader meaning implies that single actions such as separate programs or provisions of legislation are often called a 'policy.' This study aims to use the word in its first sense, connoting 'rural policy' as 'consistent actions of government to improve the welfare of rural people and communities.'

1.3. Objectives of the study

The purpose of this paper is to examine the changes that have occurred or are taking place in the economy of rural areas, particularly in the U.S. and in the eighties, to explore the impacts of these changes on the viability of those areas, and to address a question of whether there is a need for rural policy to help rural areas cope with change.

This study explores the following questions:

(1) What are the consequences of structural change in agriculture in general, and is there a reason to cushion some impacts of this inevitable transformation?

(2) What happened to the rural areas in the U.S. during the past decade? What were the major forces impacting on rural areas and what kind of changes do these factors cause in rural areas?

(3) Are there any 'new' possibilities for rural areas to increase their overall viability?

(4) What should be the role of the government, i.e. is there a need for rural policy? And if so:

(5) What kind of rural policies are needed?

1.4. Organization of the paper

The next chapter provides a theoretical background for the transition of the rural economy, especially regarding the process of structural transformation as it shapes and influences the socioeconomic conditions of rural areas.

Chapter three describes the development of rural regions in the U.S. during the 1980s and how nonmetro areas become more and more dependent on national and international forces. Chapter four investigates how rural communities have tried to deal with these external forces and explores future prospects for these communities.

The fifth chapter examines the role of the government in preserving the viability of rural areas. The study closes with summary and conclusions.

2. THE CONTINUOUSLY CHANGING RURAL ECONOMY

This chapter explores the process of structural transformation: how and why does it occur, and what are its overall consequences to the society and particularly to rural areas and communities?

2.1. Structural transformation

Structural transformation is a process through which the relative - and many times also the absolute - importance of agriculture (and other primary production) in an economy declines, i.e., when a country is transformed from one that is primarily rural and agricultural to one that is mostly urban and industrial. Along with this transition, the share of agriculture in a country's labor force and in total output declines as national income per capita increases. This process has important impacts on the structure of farming, on rural communities, and on the entire society.

The relative decline of agriculture with economic growth is based mainly on two mechanisms. First, a less-than-unitary income elasticity for food (Engel's Law) guarantees that the gross value of sales by farmers will grow less rapidly than gross domestic product. Second, the rapid growth in agricultural productivity erodes the long-run terms of trade for farm products. Timmer (1988) states that technical change in agriculture in all of the OECD (Organization for Economic Cooperation and Development) countries has proceeded at such a pace that the long-run terms of trade have declined for farm products.

One explanation, and concomitantly, a consequence of the agricultural transformation is an increase in specialization within the agricultural sector. In the early stages of development most family food is produced by the household, but as the

economy expands, many previous on-farm activities in marketing and processing are moved off the farm (Manchester, 1984). This leads to the specialization of agriculture and its integration into the general economy.

Anderson (1987) points out an additional explanation. The reason for the agricultural decline, even in growing economies with a comparative advantage in agricultural products, is found in the income elasticity of demand for non-tradable goods. Resources are diverted to the production of non-tradables even in open economies.

Mellor defines this kind of economic development as "a process by which an economy is transformed from one that is dominantly rural and agricultural to one that is dominantly urban, industrial, and service in composition" (Mellor 1986, p. 67). The objectives of this major structural transformation, according to him, are increased social wealth, equity, and stability. However, this transformation has created major problems in many developed countries. The rural economy suffers from unemployment, underemployment, poverty, lack of services, distorted demographic and occupational structure, etc., and urban areas face many social problems caused by migration and congestion in cities.

2.2. Consequences of structural change

The integration of agriculture into the macro economy which Timmer (1988) calls the fourth phase in agricultural transformation, can create many problems if resources are pushed out of agriculture too rapidly. That is why the industrialized countries have tried to cushion the adjustment process, although the results have not always been an unambiguous blessing.

The process of structural change is affected by many factors and interdependencies. As Rodefeld (1978, p. 233) writes, "achieving an adequate

understanding of the causal forces that have resulted in adoption of new technology, larger farm size, increased differentiation of farm organizational structure, and a decline in the numbers of family-type farms is no easy task." In any case, this development has had vast impacts on rural areas, communities, and people.

As a consequence, there has been a growing unease about the future role of rural people and rural communities in society. For example, Hayami and Ruttan (1985) suggest three issues that have been of particular concern to American farm people and to rural communities:

(1) Who will control agricultural production?

(2) Is there a role for the small farm?

(3) What is the future of the rural community?

The impacts of structural change on farming, rural economy, and rural communities and people are discussed below.

2.2.1. Impacts on farming

The decline of agriculture, particularly where it has been rapid, has had vast effects on the farming sector. The number of farms has decreased and the whole nature of the occupation has changed. This process is taking place in all industrialized countries. In the U.S., for example, the trend is toward a farm sector of extremes, with both large and small farms but fewer medium-sized operations in the middle (Reid 1989, Heffernan and Campbell 1986).

In 1988 in the U.S., 71 percent of the farms were 'small,' i.e., value of sales was less than $40,000 per year per farm. Traditionally, small farms have been viewed as subsistence operations for those with no alternative employment opportunities, as

retirement residences, and as a source of part-time employment or income supplementation (Hayami and Ruttan 1985).

One obvious consequence of structural change in U.S. agriculture is that an increasing part of production comes from large farms. In 1988, 106,000 farmers grossing over $250,000 per year (4.9 percent of all farmers in the U.S.) produced and sold 51.5 percent of the total farm product. One third of the production came from 30,000 large farms (gross sales over $500,000 per year) which constitute 1.4 percent of the total number of farms.

Larger farm sizes and higher prices for land have led to a concern that the ownership of land may become increasingly concentrated in the hands of the wealthy; as stated by Hayami and Ruttan, "...that rural America will be owned by a class of hereditary landed proprietors and by integrated corporate enterprises" (Hayami and Ruttan 1985, p. 229).[6]

The increasing specialization of farms and the transfer of many previous on-farm activities (e.g. marketing and processing) to the nonfarm parts of the agricultural sector have had important influences, too. As a result, farms have become more vulnerable and coordination of supply and demand is more complex. Also, the role of government has changed from simply supporting farm income to taking on more diversified activities, because of pressure from heterogeneous interest groups, environmental concerns, and numerous other problems of rural areas.

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[6] Cochrane's (1979) theory of the **agricultural treadmill** describes why land ownership is concentrating and the average size of the farms in the large commercial grouping increases year after year.

Family Farming

Family farms and their future have been one of the major issues in the rural debate. Often this concept is nostalgic and romantic, a myth-like image as, for example, described by Tweeten: "[The family farm is] an economic unit where the family is independent, free from the hustle and bustle of city life, and communes with nature" (Tweeten 1979, p. 52).

One of the problems with sustaining the family farm as a policy goal is that there is no clear definition of family farming - not one that can be used with any effectiveness in debate and policymaking, anyway. Family farming embodies many values and thus is often astutely used to promote the cynical interests of farmers' groups and commodity organizations.

Basically, a family farm is an owner-operated, medium-sized enterprise in which family members provide the majority of labor and make the important management decisions. This definition, however, fits the vast majority of farms in America. Many U.S. farmers today perceive their operations both as 'family farms' and as 'industrial agribusinesses.' Most feel the tension represented by these two contradictory sets of values and are pulled in both directions at once (Strange 1988).

Unfortunately, there is no precise definition of the family farm that would be acceptable to all. This study treats the family farm as a privately owned entity in which most of the labor and management is provided by the operator and his/her family.

Another widely (and deceptively) used term that is in great need of a clear definition, is '**commercial farm**.' A commercial farm is one where a family (or at least one member of the farm family) works **full time** on the farm, but it can employ workers as well. The opposite of commercial farming is **part-time** farming, whose nature will be discussed in more detail later in this chapter.

Farming in the U.S. has gradually evolved into three major subsectors. There are large industrial-type farms (sales over $250,000 per year most of which are family farms as well); small farms (sales less than $40,000 per year and increasingly part-time), and 'traditional' commercial family farms. The traditional, medium-size family farms, those having sales of $40,000 to $250,000 per year, are slowly diminishing in number, both as a proportion of all farms, and in the proportion of farm output supplied (Tweeten 1989).

The mixture of definitions described above creates confusion and undermines the effectiveness of policymaking. Thus, objectives must be clarified in terms of which entities should be preserved and what measures of successful performance should be used when debating the future of the family farm. Should the policies aim to preserve people, land, farms or something else?

In any event, the increasing duality of the U.S. agriculture is today's reality. In many areas, the farm structure is becoming bimodal, with many part-time farmers operating small production units while a few full-time farmers operate large farm businesses (Leistritz et al. 1986). Small and medium-sized farms with full-time operators account for a declining share of total output and number of farms.[7]

The decline of the medium-sized family farm has raised discussion about what farming and landowning is going to be like in the future. The combination of larger farm sizes and higher prices for land and other assets has made it more difficult for young people to get started in farming without substantial family backing.

Arguments for a system of agriculture based on the family farm have included (Leistritz et al. 1986):

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[7] These generalizations conceal, however, a considerable amount of inter- and intraregional variations, especially with respect to part-time farming.

(1) The family farmer is considered to be a trustworthy provider of food and fiber.

(2) The family farm has been associated with values esteemed in American society, such as independence and self-reliance.

(3) The family farm has been viewed as an efficient user and protector of the environment and its natural resources and as a major contributor to the quality of life in rural communities.

On the other hand, Buttel (1983) argues that the virtues of the family farm have become so universally and unquestioningly accepted that the achievement of a family farm system of agriculture, however it is defined, has become an end in itself, rather than a means to achieve certain ends.

All in all, the future of family farming is a complex issue. It is a popular image used in debates in industrialized countries today, but it seems that the participants in the discussion do not even know themselves what the main point of discussion is. In any case, the decrease in numbers of farm families and family farms, especially medium-sized farms, has influenced the socioeconomic conditions of many rural areas.

Part-time Farming

The increasing number of part-time farms is another significant feature of agriculture in industrialized countries today. In much of nonmetro America, farming is increasingly a lifestyle choice that includes work off the farm. Also, the character of part-time farms is changing.

Sauer concludes that "...part-time farming is no longer a transitional stage during which farmers and their family members take off-farm work on their way into or out of

full-time farming. Indeed, such part-time farming has come to represent a permanent and important part of a stable, multi-job rural career" (Sauer 1986, p. 6).

Part-time farming in the U.S. is often classified into two groups: part-time farmers who are forced to get off-farm work and part-time farmers who have chosen to farm because they prefer the life-style it offers (Barlett 1986). The former group has mostly been seen as 'transitional or downwardly mobile from full-time farming,' whereas the latter see their choice as 'a positive commitment' to farming that provides 'the best of both worlds.'

Based on her study in Dodge County (Georgia), Barlett (1986), however, suggests part-time farmers be divided in three groups: standard farmers, transitional farmers, and investors.[8] The 'standard farmers' form the majority (about two-thirds) of the part-time farmers and the remaining one-third is split between 'transitional farmers' and 'investors.' An interesting finding in this study was that the majority of part-time farmers (70 percent) in that county never intended or tried to farm full-time as a primary occupation.

The decision to farm in addition to holding a full-time job is a complex one, involving both income and life-style considerations. Barlett (1986) also points out obvious policy implications. If part-time farmers are struggling family farmers, government support can be more easily justified; but if part-time farming is the means to a high-quality life-style, then part-time farmers might take inappropriate advantage of programs designed to help 'real farmers.'

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[8] Barlett (1986) defines the 'standard farmers' as individuals who hold full time non-agricultural jobs to which they have been committed since completing their education, but who have added a farm that is operated primarily with their own labor. The background of the 'transitional part-time farmers' conforms to the assumption of downward mobility from full-time farming. The 'investors' have typically inherited their farms and share the actual farming activity with full-time hired hands.

Off-farm earnings are crucial to small farms. The average farm and off-farm incomes per farm on different sized agricultural operations are shown below (Table 1).

Table 1: Average income per agricultural operation by value of sales class in 1988

	Farms with sales of			
	$500,000 and over	$100,000 to $499,999	$40,000 to $99,999	Less than $40,000
Net cash income ($)	762,830	87,402	25,252	1,988
Off-farm income ($)	27,891	17,290	14,679	26,434
TOTAL cash income ($)	790,721	104,693	39,931	28,422

Source: U.S. Department of Agriculture (1988, pp. 51 and 52).

In sum, the proportional share of part-time farms seems to increase as structural transformation takes place. However, their share of the total production varies depending on the agricultural and population structure of each country. Part-time farming will be an important component in different sources of livelihood in communities that are able to offer off-farm work or are adjacent to bigger cities.

2.2.2. Impacts on the rural economy

Along with structural transformation and the overall development of the society, the rural economy becomes more and more diverse. In the U.S., for example, farming accounts for only nine percent of rural employment. This average national figure, however, masks many dissimilarities between different areas, because the importance of agriculture in relation to other industries varies considerably among regions. The service

sector makes up two-thirds of the total employment base in rural America and the share of manufacturing is about 17 percent.[9]

In the early stage of structural transformation, natural resource-based industries (agriculture, forestry, mining, fishing) characterize the rural economy. Gradually, especially when the productivity of agriculture rises, the share of manufacturing begins to increase. In the fourth phase of transformation, service sector accounts for most of the new jobs in rural areas.

As a result of transition, rural economies are more complex today than in the past. Deaton and Weber (1988) identify four dimensions of the changing economic structure of rural areas:

(1) increased dependence of farm households on off-farm income and the implications of this for the farm sector;

(2) sectoral employment shifts (service-sector employment is growing);

(3) the shift in income structure from earnings to transfer and investment incomes; and

(4) changes in the size distribution of income and poverty.

"Most rural communities are now linked strategically to urban centers in terms of job markets and dependency. In this sense, rural communities have become more differentiated, specialized, and autonomous" (Deaton and Weber 1988, p. 406).

There is a tendency in rural America to specialize in natural resource based industries and manufacturing industries with routine and low technology operations. This kind of specialization makes rural workers more vulnerable than urban workers to

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[9] A more detailed description of the U.S. rural economy, particularly in the 1980s, is found in chapter three.

business cycles, foreign competition, and technological change. The vulnerability is compounded by the relative isolation of many rural communities (McGranahan 1988).

All in all, the process of structural transformation has both direct and indirect effects on nonmetro economies. These economic, demographic, and social impacts shape the structure of the rural economy and increase the number of influencing factors, thus multiplying the complexity of rural research and policymaking.

2.2.3. Impacts on rural communities and people

One of the most visible consequences of structural transformation in all participating countries has been the migration of people from rural areas to towns and cities. Depopulation can have a serious negative impact on nonmetro communities. Such a downturn can adversely affect the composition of a community's population, and it is generally associated with the availability of services, amenities, and economic opportunities (Brown 1975). Worse still, in many instances, population decline tends to perpetuate itself.

The reduction in the number of farms caused by technological innovations and increased productivity, combined with attractive jobs in metropolitan areas, has resulted in vast out-migration. As the farm population has declined, the number and variety of business enterprises in the rural communities have also declined. However, throughout this century, the rural population in the U.S. has remained relatively stable despite extensive declines in the farm population (Leistritz et al. 1986).

The out-migration has changed the composition of the rural population. Nonmetro areas are typically characterized as having a larger proportion of elderly residents than do urban areas. Those who leave are more likely than those who stay to be young, well-educated, and working in a white collar job (Swanson and Butler 1988).

As a result, nonmetro counties are at a disadvantage with regard to their labor forces. They have a smaller proportion of people in the prime working ages of 20-44 than do metro areas. They also have many discouraged workers and high levels of work-preventing disabilities among workers, and the remaining people tend to be less well educated than on the average (Swanson and Butler 1988).

Out-migration has also altered remarkably the racial distribution in nonmetro areas in the U.S. "Blacks have gone from one of the most rural racial groups to among the most urban" (Leistritz et al. 1986, p. 125).

Another distinctive feature of the U.S. rural areas is their persistently disproportionate share of the nation's poor. In 1985 the nonmetro and metro poverty rates were 18.3 percent and 12.7 percent, respectively. Nonmetro poor are more likely to be elderly, white, and to live in the South than metro poor (Brown and Deavers, 1988).

In addition to the population out-migration, the decrease in farm numbers has had devastating impacts on many rural communities through a decline in the number and diversity of retail stores, the viability of local schools, churches, and other institutions (Hoiberg and Lasley 1986).

The impacts on agribusiness and retail firms depend on the trade patterns of the remaining farm operations. When farm structure changes, so do farm purchases. Some town businesses close their doors. Others located in nearby towns pick up the trade that remains. Thus, the larger towns may even grow, while the smaller towns shrink. Rural community hierarchies are not static and will continue to adjust to changes in demand and supply:

> "The demand and supply effects reinforce one another in a rural community hierarchy to promote the growth of some larger regional distribution centers and the decline of the smaller communities. Once a

> smaller community starts to lose businesses, both demand and agglomeration economies decline simultaneously and reinforce a continual decline. On the other hand, when a community starts to grow, its comparative advantage from both the demand and supply side reinforces its continual growth" (Henderson et al. 1989, p. 35).

The declining number of farms affects the remaining farmers and their families as well. Longer distances to services and amenities, decreased social contacts, etc. - all these have impacts on the farm families, particularly in the regions where the population density is low already.

Elbert (1988) argues that the most serious consequence of structural transformation from the point of view of surviving farm families has been "...the recurring cycle of agricultural overproduction as farmers attempt to compensate for their inability to control costs and markets."[10]

Thus, the changing structure of agriculture has significant economic and social consequences on rural people and communities (Sanders and Lewis 1976); and, for example, Heffernan and Heffernan (1986) claim that a healthy farm sector may be crucial for 'the community's mental health.' Moreover, agricultural change may exacerbate problems of poverty in rural communities as observed by Fitchen (1988). Finally, environmental problems caused by the change towards larger farms and more intensive farming are becoming a greater concern of many countries.

When the wealth of the society grows along with the structural transformation, some areas are able to reap more benefits than others. Although not all declining areas are being bypassed by the process of national economic growth, for many rural areas it is

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[10] This is a somewhat paradoxical situation but common to most of the agricultural producers in developed countries. Farmers try their best to survive and the more they succeed, the more problems they cause to the society in the form of subsidized overproduction that must be 'dumped' on the world market. The severe problem of chronic hunger in many parts of the world makes this dilemma even more paradoxical.

hard to keep up with the progress of society. The consequences of uneven or lagging development are, for example, felt in the rural nonfarm sector of a farming area that suffers from losses of its economic and population base as farms become larger and fewer (Bonnen 1983). The development of lagging areas has to be taken into special consideration in regional policymaking.

2.3. Summary

Successful industrial and agricultural revolutions 'grow up' together. The declining price of agricultural products puts pressure on agricultural resources to move out of farming into the more rapidly growing sectors of the economy. Although this process is based on economic factors, Rodefeld (1978) sees structural change partly as a result of "evolutionary determinism:"

> "Replacement of the numerous small farms...by a smaller number of larger, highly differentiated corporate or industrial-type firms...is viewed as the logical conclusion of inexorable, irreversible, and, often, unspecified change processes" (Rodefeld 1978, p. 232).

As agriculture develops, people displaced from farms and rural areas tend to migrate to cities, where their presence in large numbers can strain the fabric of society. Such intersectoral movements of resources often are painful, and societies try to cushion the adjustment process, because many political problems arise if low farm incomes are allowed to push resources out of agriculture too rapidly.

Agricultural policies have been used to mitigate the problems of farm sector and rural areas caused by the structural transformation. A nostalgic memory of farming as a 'way of life' leads many second and third-generation farm migrants in cities to support political decisions for higher incomes for agriculture. Also, by the time these problems

arise, the share of the farm-gate price of the commodity in the consumer's market basket is small, only a few percent or less.

Timmer (1988) calls this the paradox of the agricultural transformation:

> "Just as countries learn how to institutionalize the process of rapid technical change in agriculture, its product no longer has high social value. The resulting low incomes for farmers create powerful political pressures to slow the process of structural change" (Timmer 1988, p. 279).

However, agricultural policies have proved to be incapable of preserving the viability of rural areas and recognizing their increasing diversity. There exists a social dilemma and value conflicts (increase productivity but save all family farms) complicated by the fact that "the transformation of rural society has remained obscured and not understood by the society" (Bonnen 1990, p. 5).

The political debate about the future of the rural areas focuses too heavily on family farms and their destiny. Farm interest groups and the media have been able to create and promote an image of the 'good old countryside' preserved by family farms in contrast to large businesses and corporations that threaten both food safety and the environment. Still, most people know, or should realize, that the reality is not as black and white as described above.

The shrewdly maintained confusion in definitions has made this situation possible: there is no clear agreement on what 'family farming' consists of, not to mention 'commercial,' 'corporate,' 'business,' and 'part-time' farming. Farming's significance to rural areas should not be neglected, but the other participants in the increasingly heterogeneous rural economy must be considered as well, and at present they generally are not.

All in all, the process of structural transformation is not solely the decline of agriculture in a society. It includes enormous changes in rural areas, their socioeconomic base and population. Bonnen (1990) describes the evolution in the U.S. as follows:

> "Between 1920 and 1978, 41 million people migrated from US farms -- 31 million since 1940! But this was not just a transfer of population. What happened in the agrarian transformation was a deinstitutionalization of rural America, an erosion of the base of the human and institutional resources of rural communities" (Bonnen 1990, p. 4).

As a consequence, the impacts of structural transformation must be more accurately and widely understood and acknowledged before it is possible to create policies that really help rural people and areas - including agriculture - in their continuous adjustment process.

3. THE RURAL ECONOMY IN THE U.S. IN THE 1980s

During the last few decades, the economic structure of rural America has become more diversified, significantly diminishing its overall vulnerability to changes in natural resource markets, commodity prices, and farm conditions. As a result, the economic future of many rural residents is now tied more to national and global economic factors than to the success or failure of any one business sector (Reimund and Petrulis 1988).

The industrial transformation of rural (and urban) employment in the U.S. has included a shift from primarily agricultural to predominantly nonagricultural employment, which was followed by a shift in the mix of nonagricultural jobs from goods production to much greater emphasis on services (Brown and Deavers 1988). The crossover point for the first major transformation had already occurred by 1880, when the number of nonagricultural workers exceeded the number of agricultural workers (Bogue 1985). The second transformation began in the 1960s, when manufacturing's share of total nonagricultural employment first dropped below a third and the share accounted for by services (including government) started to rise (Brown and Deavers 1988).

This chapter examines the changes in rural areas in the U.S. and the factors influencing these changes, with an emphasis on recent trends that have shaped rural economies in the 1980s.

3.1. Rural areas at the beginning of the decade

According to the first official census in the U.S. conducted in 1790, 19 out of every 20 Americans lived in rural areas. By 1980, 190 years later, about one-fourth of the population (59.4 million) resided in nonmetro areas, and the majority of these people

followed economic pursuits not directly tied to farming. Only 9.4 percent of the U.S. rural population - and 2.5 percent of the whole American population - lived on farms in 1980 (Hines et al. 1986).

Rural life and economy in the U.S. has been transformed drastically, especially following World War II. The most notable change has been the decline in farm population. Rural people are no longer readily distinguishable from nonrural people in speech, dress, or manner, and they enjoy many of the amenities of the urban dweller (Rasmussen 1985). Paarlberg wrote in 1980:

> "Agriculture is in the process of losing its uniqueness....Farm people have entered the mainstream of American economic, social, and political life....The institutions set up to serve a unique vocation have had the unforeseen consequence of helping to reduce - indeed, almost to destroy - that uniqueness" (Paarlberg 1980, p. 5, 8-9).

3.1.1. Rural development before the 1980s

The change in rural areas in the U.S. - and in most of the industrialized countries as well - has been dramatic, particularly during the last few decades. In the 1950s, agriculture dominated the social and economic well-being of most of the rural population. In 1950, 15 percent of the nation's population and 40 percent of the rural population lived on farms, and almost a third of the nonmetro work force was engaged directly in agriculture (Beale 1978). Hence, technological and organizational changes in agriculture, and public policy relating to agriculture, were dominant forces shaping rural life both on the farm and in rural communities. Brown and Deavers describe the evolution as follows:

> "Regardless of one's perspective, whether it be economic, social, or demographic, present day rural America bears little resemblance to that of the 1950's. Population size, growth, and composition; the industrial and occupational structure of the rural economy; the general level of living and socioeconomic well-being; and perhaps most important of all

> the linkages binding nonmetro and metro economies and communities together have all changed significantly" (Brown and Deavers 1988, p. 2).

Deaton and Weber (1988) divide the U.S. postwar era into three time periods of relatively different structural adjustments: technological ascendency (from 1950 to 1960), balanced growth (from 1960 to 1972), and new internationalism (from 1972 to the present).

The first period was a decade when the scientific and technological achievements flourished and made their way to agriculture. This "cost-reducing technological treadmill" displaced over a million people a year from U.S. farm production for several years (Deaton and Weber 1988, p. 410).

The main active policies toward rural areas were the farm programs. Also, in the 1950s, the interstate highway system received its first appropriations and Rural Development Committees were organized (Rasmussen 1985). Perhaps this decade was the most drastic period of the U.S. structural transformation:

> "By the end of the decade, the seeds of fundamental change had been sown. The dislocation of such large numbers of rural workers during the 1950s undoubtedly contributed to the urban crises of the 1960s, the growing disaffection with life in our major metropolitan areas, and the so-called 'population turnaround' of the 1970s. The rural-urban migration process was related directly to the mechanization of American agriculture" (Deaton and Weber 1988, p. 410).

During the era of "balanced growth" policy attention was given to 'balanced' economic growth and to a societal focus on distributive justice. Some of the most severely depressed areas of the country aroused concern, and programs were launched to address the problems of poverty, malnutrition, and regional growth (Deaton and Weber 1988).

The decentralization of manufacturing was accentuated in the 1960s, partly due to the abundance of relatively cheap labor in small towns and rural areas. An unexpectedly

high elasticity of labor supply (because of increasing participation of women, returning migrants, and expanding commuter fields) in many rural areas kept wages relatively low. Between 1960 and 1970, manufacturing employment grew by 22 percent in nonmetro areas, compared with only 4 percent in metro areas (Bloomquist 1988).

Deaton and Weber characterize the period of balanced growth and policy conflicts between 1960-1972 as follows:

> "Farm programs of price and income supports in the 1960s changed in form but continued to be based on an overriding concern for commercial farmers. Their effects on the structure of rural areas continued to be secondary considerations. On the other hand, urban social costs were a frightening reality that commanded public attention" (Deaton and Weber 1988, p. 411).

During the recent period of "new internationalism", rural communities experienced significant structural changes in the 1970s as consequences of both the rapid out-migration of the 1950s and the balanced growth focus of the 1960s. The 'population turnaround' of the 1970s was one of the most surprising and remarkable demographic events of the decade.

In the 1970s, the nonmetro population grew by 13.5 per 1,000 per year compared with 10.1 per 1,000 per year for metro areas, but the growth began to slow by the end of the 1970s (Richter 1985). At the beginning of the 1980s, the annual growth of metro areas again exceeded that of nonmetro areas (Table 2).

Table 2: Metro and nonmetro average annual population change

Area	Population growth per 1,000 per year		
	1960-70	1970-80	1980-85
United States	12.7	10.9	10.5
Metro	16.1	10.1	11.5
Nonmetro	2.5	13.5	7.4

Source: Brown and Deavers (1988, p. 15).

The pervasiveness of the turnaround in the seventies can be judged by the fact that the rate of nonmetro population growth increased in all four U.S. census regions. Moreover, nonmetro growth occurred in areas separated from direct metropolitan contact as well as in counties adjacent to metro areas. Smaller areas also grew more rapidly than larger areas, indicating decentralization among rural areas themselves (Brown and Deavers 1988). Research conducted during the 'turnaround decade' conclusively indicated that both economic and noneconomic factors were responsible for the rural population revival (Fuguitt 1985).

During the 1970s, the influence of the international economy on the rural economies of the U.S. kept increasing. However, both the agricultural sector and the manufacturing sector had a 'tail wind' that continued until the recession of the early 1980s.

Throughout the 1970s, agricultural capacity expanded rapidly as farmers took advantage of accelerating inflation and very low to negative real interest rates. The value of the dollar was also generally low, making American products relatively cheap, and the value of agricultural exports swelled more than fivefold during the period (Reimund and Petrulis 1988).

Even the manufacturing sector performed well, although the growth slowed slightly from the boom years of the 1960s. Between 1969 and 1979, manufacturing employment grew by 17.4 percent in nonmetro areas, while the growth rate in metro areas was only one percent (Bloomquist 1988).

The return to the 'old trends' of out-migration from rural areas and slow nonmetro growth that began in the early 1980s seems to have surprised analysts almost as much as the 'turnaround' of the previous decade. For example, in 1984, Deavers and Brown wrote in their suggestion for "a new agenda for rural policy in the 1980's":

> "The strength of the underlying forces shaping rural development, including economic decentralization, modernization of rural life, and preference for rural living make it unlikely that the 1970's were an aberration. Moreover, the surplus labor pool in agriculture (and other 'extractive' industries) from which many rural to urban migrants originated is now largely depleted" (Deavers and Brown 1984, p. 38).

3.1.2. Increased diversification of rural areas

The development during the postwar period has greatly increased the diversity of nonmetro areas in the U.S. In the aggregate, nonmetro areas have become much more similar to metro areas, yet far more diverse among themselves.

Farming and ranching no longer dominate the economic life of most of rural America. There is regional variation, however. Those counties where farming is of major importance are concentrated in the nation's midsection (Green and Carlin 1985).

As the share of agriculture has declined, industry has expanded into the countryside in a search for lower land values, cheaper and often nonunion labor. The development of the interstate highway system and new electronic communications systems have also facilitated the movement into rural areas. For many areas this has meant increasing employment opportunities and reduced dependence on traditional forms of rural employment, such as agriculture, forestry, and mining.

The accelerating diversification of rural America created a demand for a more accurate classification of nonmetro areas. As Bender et al. (1985, p. v) conclude, "rural policies based on an aggregate analysis of rural development needs cannot accurately reflect the extremely diverse social and economic structure of rural America."

The remainder of this section, unless mentioned otherwise, is based on the classification of rural U.S. counties identified by Bender et al. (1985) in the publication "The Diverse Social and Economic Structure of Nonmetropolitan America."

The aforementioned study identifies seven distinct types of nonmetro counties according to their major economic base, presence of federally owned land, or population characteristics (number of counties at the end in parenthesis):

(1) counties depending heavily on farming (702);

(2) counties depending heavily on manufacturing (678);

(3) mining counties with economies based principally on natural resources (200);

(4) counties specializing in government functions (315);

(5) persistent poverty counties (242);

(6) federal lands counties (247); and

(7) retirement settlements (515).

These seven county groups include all but 370 of the 2,443 nonmetro counties.[11] However, there is some overlapping: only 57.3 percent of the counties belong exclusively to one group. Each of these groups is characterized briefly below:

Farming-Dependent Counties

Counties dependent on farming account for 29 percent of all nonmetro counties but only 13 percent of the nonmetro population. In these counties labor and proprietor income (LPI) from farming amounted to 20 percent or more of total county LPI during 1975-1979.

Farming counties tend to have the following average characteristics relative to other county groups: remoteness from metro areas; large population losses in the sixties followed by below-average gains in the seventies; uneven income distribution; only

[11] Metro/nonmetro status in this study was based on 1974 Office of Management and Budget designations. In 1983, there were 2,537 nonmetro counties (see section 1.2.1. earlier, p. 3).

slightly lower than average proportions of labor and proprietor income from services-producing sectors; and high average proportions of elderly people who receive Social Security benefits or other transfer payments.[12]

Farming-dependent counties have small population bases and are sparsely settled relative to the other rural counties. This makes it difficult to provide public infrastructure to support economic growth and presents limited opportunities for establishing nonfarm employment options because of a small pool of potential workers (Carlin and Greene 1985).[13]

Manufacturing-Dependent Counties

Manufacturing counties comprise 28 percent of all nonmetro counties and 39 percent of all rural population. They tend to be much more urbanized and more often contiguous to SMSAs[14] than are other nonmetro counties. In manufacturing counties, manufacturing contributed 30 percent or more of total LPI in 1979. The extent of specialization is striking: manufacturing accounted for an average of 42 percent of all LPI in manufacturing counties in 1979.

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[12] The comparison between farming-dependent counties and all **other** nonmetro counties reveals, for example, that the average population and the population density were much lower in the former than in the latter. A more detailed description can be found in Green and Carlin (1985), who in their study developed additional classifications finding 207 counties that were extremely specialized in farming/ranching.

[13] For a classification of nonmetro counties dependent on **farming** and **farm exports**, see Harrington (1988).

[14] SMSA = a standard metropolitan statistical area. In general, SMSAs include counties with cities or twin cities having a population of at least 50,000 plus adjacent counties having evidence of metropolitan character and integration with the central city counties. See, for example, Gilford et al. (1981, p. 19).

Manufacturing-dependent counties tend to exhibit the following average characteristics relative to other county groups: larger urbanized population and locations near metro centers; greater than average population increases in the sixties followed by average gains in the seventies; larger than proportionate black population; and slightly lower proportions of LPI from services-producing sector.

Mining-Dependent Counties

Mining counties account for only six percent of nonmetro population. In these counties LPI from mining amounted to 20 percent or more of total county LPI in 1979. The level of urbanization varies greatly and the population density is much lower than the overall average of all rural counties. Population changes in mining-dependent counties reflect the wide swings in demand for energy and mineral resources.

Characteristics typical to mining-dependent counties include the following: locations at natural resource sites, usually remote from very large metro centers; high rates of population increase accompanying energy demands; high income levels; and lower than average concentrations of service activities.

Specialized Government Counties

In 12.9 percent of U.S. nonmetro counties, 25 percent or more of the total LPI in 1979 came from payrolls of federal, state, and local governments. These specialized government counties are scattered throughout the country. The high concentration of government jobs in these counties is attributable to particular types of federal and state activities, such as military reservations and bases, headquarter areas for state and federal parks and forests, state capitals or institutions of higher education, etc.

Specialized government counties tend to have the following average characteristics relative to other county groups. They are somewhat more urbanized, have higher rates of population increase, lower average incomes, and a low-wage mix of economic activities.

Persistent Poverty Counties

The nonmetro counties designated as areas of persistent poverty had per capita incomes in the bottom quintile of all U.S. counties in 1950, 1959, 1969, and 1979. Poverty-stricken counties represent 10 percent of all nonmetro counties, and they contain six percent of the nonmetro population. These counties have fewer people and are less urbanized than most other county groups. Only 42 percent of residents aged 25 and over had completed high school in 1980. Poverty counties also have high concentrations of blacks.

Typical average characteristics of persistent poverty counties include: a sparse and nonurban population settlement pattern; low income levels that have persisted for decades; and disproportionate numbers of people with disadvantages affecting their productive labor force participation.

Federal Lands Counties

Counties with at least a third of their area in federal ownership were classified as federal lands counties. These areas contain nine percent of the total nonmetro population and they tend to be some distance from metro areas. 44 percent of these counties are totally rural and population density is the lowest of any county group (15 persons per sq. mile).

Federal lands counties tend to have the following average characteristics: remoteness from large metro areas; people who tend to reside in small towns and cities rather than in the open country; rapid population increases; average proportions of income from services-producing activities even though population density is very low; and large farms and ranches.

Retirement Counties

21 percent of nonmetro counties were classified as retirement counties. In these counties, for the 1970-80 period, net in-migration rates of people aged 60 and over were 15 percent or more of the expected 1980 population aged 60 and over (= expected resident population that survived to age 60 or over from 1970 to 1980). The average population growth rate of these counties was 11 percent from 1960 to 1970 and 34 percent from 1970 to 1980.

Average characteristics for retirement counties were the following: very high population growth rates in the sixties and seventies; remote rural locations; large proportions of income from transfer payments; and large services-producing sector.

Ungrouped counties

A total of 370 nonmetro counties out of 2,443 were not a part of county groups classified above. These counties tend to have high proportions of populations living in urban places, have below average 1970-80 population changes, and generate greater than average services-producing income.

* * *

In sum, Bender et al. (1985) conclude that rural economies are, indeed, more and more diversified. However, they emphasize that this characterization "is accurate for

rural areas in the aggregate, but it can seriously mislead those who attempt to apply it to individual rural areas" (Bender et al. 1985, p. 22). Thus, different policy actions or world trends, for example, have different impacts on rural counties and rural development programs need to allow sufficient flexibility to adapt them to fit particular conditions.

3.2. Main factors causing rural changes

Several trends converged to produce severe economic conditions in rural America during the 1980s. In 18 states, the 1986 level of employment in nonmetro areas was below the 1979 level (Reid 1989). Agriculture suffered from unfavorable international trade conditions; manufacturing was hit by the hard recession of the early 1980s; mining, oil, and timber industries faced low prices; and even the services sector performed much worse in nonmetro areas than in metro areas in the eighties.

The recent decade put all the participants in rural economies under stress. The slowdown of agriculture and rural industries increased unemployment and underemployment. Much of rural America lost population during the 1980s.[15] Rural lenders incurred sharp increases in loan losses, and rural bank failures reached post-depression heights. Small nonmetro towns found their economic viability in question, and county governments strained under an eroded tax base (Henry et al. 1988). These trends drew much public attention towards all rural problems, although it was the farm problem that received the bulk of attention, and spending!

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[15] In 1987, about 30 percent of nonmetro counties had unemployment rates exceeding 9 percent, almost 50 percent above the national unemployment rate of 6.2 percent. Underemployment affects nearly three times as many rural workers as unemployment. Also, by 1986-87, over half a million more people a year were leaving rural areas than moving in (Reid 1989).

There have been, however, some bright spots in the rural economy in the 1980s. Retirement and recreation areas continued to experience population and job growth during the recession and recovery, although more slowly than in the 1970s. Passive income sources, particularly income transfers such as social security, have provided more flexibility in choosing the place of residence and buffering the effects of industrial slowdowns. Rural counties within commuting range of large metro areas performed better economically than outlying counties. Still, as Reid (1989, p. 359) concludes, "the fundamental fact about the rural economy in the 1980's remains its vulnerability to competition, economic shocks, and the continual process of national economic modernization."

There are several forces that have contributed to rural economic problems in the 1980s. Henry et al. (1988), for example, list four main causes: international factors, the shift to services, deregulation, and agricultural change. Deaton and Weber (1988) have found six important trends affecting rural America: internationalization of the economy, changing demographic structure, changing economic structure, decentralization of government, deregulation of key economic sectors, and evolving conceptions of justice and human rights. Below, the influencing factors have been clustered in three groups: international forces, national trends, and other factors.

3.2.1. International forces

Several international factors have played a critical role in the U.S. economy in recent years. They are caused by a restructuring of world economic relationships which is taking place continuously and often unpredictably. Unfortunately, many times the consequences of this restructuring are felt hardest in rural areas.

Mounting international competition put many U.S. industries on the defensive in the 1980s. Good examples include basic manufacturing, agriculture, and forest products. A strengthening U.S. dollar from late 1979 to 1985 gave foreign producers a price advantage. Also, a deep worldwide recession in the early 1980s cut demand for many internationally traded products. The net result was, and is still, that U.S. industries that export or compete against imports did not perform well in the 1980s (Henry et al. 1988). Many times these are just the industries which form the economic backbone of the traditional rural economy.

Rural manufacturing was especially subject to foreign competition in the 1980s. As stated earlier, manufacturing employment grew quickly in nonmetro areas in the sixties and seventies. However, the two economic recessions of the early 1980s contributed to a drop in manufacturing employment from the peak levels of 1979 (Bloomquist 1988).

Manufacturing employment in both metro and nonmetro areas grew or declined in conjunction with the business cycles of 1969-84. Unluckily, the rural sector's growth involved more bottom-of-cycle and resource-based industries than the growth in urban areas. The rural manufacturing sector was more sensitive to business cycles than the urban sector was, especially during expansionary times (Bloomquist 1988). Generally, rural manufacturing plants tend to produce labor-intensive goods and, thereby, face stiff competition from countries with lower wage rates.

Agriculture endured a deep recession during the recent decade. The same factors that had given rise to economic expansion of the 1970s reversed direction. Worldwide recession and the high value of the dollar combined with high loan rates for U.S. farm commodities and rising real interest rates to cut farm exports and put many rural communities under stress. This was a clear demonstration that monetary, fiscal,

exchange-rate, and trade policies have an increasing impact on U.S. agriculture (Schuh and Orden 1988).

Other natural resource-based industries were also affected by international factors. Increased international energy supplies and stagnant world demand led to significant declines in energy prices, which was a bust for many local 'energy boom economies' (Henry et al. 1988). The forest products industry has been facing increased foreign competition. In general, all the natural resource industries were, and will be, greatly affected by international economic developments, although there is a considerable amount of diversity depending, for example, on the importance of exports for a particular industry (Weber et al. 1988).[16]

In sum, the traditional rural economy was adversely affected by international forces in the 1980s. Manufacturing, agriculture, and natural resource industries all had difficult economic problems as a result of increased foreign competition, the strong dollar, and weak world markets. While these factors have negative impacts on urban economies, too, metro areas usually have more diverse economies that buffer some of these effects. Rural economies, however, normally depend on one principal industry, and none of the traditional rural industries fared well in the 1980s.

3.2.2. National trends

Changes in policy settings, i.e. various actions by governments at every level, influence the social and economic development of rural communities. The governmental powers to tax, legislate, regulate, etc., alter the environment of rural industries and force

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[16] "Agriculture and natural resource industry specialization is largely a nonmetro phenomenon. Over 95 percent of counties specialized in agriculture or natural resource industries in 1984 were nonmetro" (Weber et al. 1988, p. 110).

them to adapt. This section describes briefly some consequences of federal policies for rural areas.

During the sixties and seventies, state and federal involvement in the affairs of local government grew. One implication of this was the declining share of locally raised revenues as a share of local revenue.[17] In even earlier decades, the foundation for rural economic development was laid by Federal 'rural development programs.' Surfaced roads, a postal system, electricity, telephones, water and sewer systems, low-cost credit, improved housing, recreational resources - in short, the whole basic infrastructure, resulted from these programs (Rasmussen 1985).

The 1980s, however, has been the decade of the "new federalism" (Deaton and Weber 1988, p. 407). The authority and fiscal responsibility for governmental functions has been shifting from the national to the state level. In turn, state governments have thrust greater responsibility on local units of government. Also, the deregulation of transportation industries and financial markets have directly affected the rural economy. Deregulation has brought new market forces to bear on rural areas. Coming at a time when the rural economy was under many downward pressures, its effects have likely contributed to the cumulative stress of the 1980s on rural areas (Henry et al. 1988).

Long et al. (1987) argue that the goal of federal programs for rural development is not defined with precision, but they seem intended to serve three broad and distinct purposes: increasing agricultural income; stimulating regional economic development; and enhancing the general quality of life in small, rural communities.

Agricultural commodity programs, the backbone of U.S. rural policy so far, face increasing criticism today. They are neither well-targeted to farms with financial stress

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[17] In 1977, intergovernmental transfers represented 43 percent of revenues of rural localities compared with 34 percent in 1962 (Brown and Deavers 1988).

nor to farm families with low incomes. However, changing these programs can have severe impacts on farm families and some rural economies because they constitute very high proportions of both the gross and net cash receipts for the commodities to which they apply (Harrington 1988). To the degree that the well-being of the producers is linked with the economic health of communities where they reside, farm programs have broader community benefits as well. Thus, commodity programs are likely to continue even though the pressures for major modifications are growing ever stronger.

Programs involving multi-state and sub-state investments in infrastructure have been one procedure for stimulating regional economic development.[18] However, Long et al. conclude that "multi-state regionalism is receding because it was neither politically nor administratively palatable" (Long et al. 1987, p. 12).

The third form of program has been assistance to small communities. These programs have been primarily rural, but neither sectoral nor regional, with Farmers Home Administration being the most important. More recent legislation includes the Rural Development Act of 1972 and Rural Development Policy Act of 1980.

In addition to **direct effects** of government programs, i.e., 'rural development policies,' there are a wide variety of approaches that have **indirect impacts** on rural economies. Bradshaw and Blakely (1988) group federal programs that indirectly affect rural development into three categories: i.e. programs that

(1) provide services directly to individuals who need them regardless of their place of residence;

(2) help build rural organizations; or

(3) alter the context for rural business and other government programs.

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[18] For example, Tennessee River Valley in the thirties and Appalachian Regional Commission in the 1960s.

Bradshaw and Blakely (1988) argue that several programs that had no specific intent to influence or direct development are now recognized for having a more profound impact on rural areas over the last five decades than some explicitly developmental programs. They draw the following conclusion:

> "The unanticipated benefit of these programs is greatest for rural areas when the programs are not oriented toward the development of areas, when they build local organizational capacity, and when they coordinate with other developmental initiatives. Rural areas remain dependent on many programs that provide a social service network in order to overcome the underdevelopment persisting in rural America" (Bradshaw and Blakely 1988, p. 1).

Examples of services or resources provided directly to individuals who need them regardless of where they live are Social Security and programs guaranteeing equal access and opportunity. Such transfer payments may be of great importance for the economic development of a rural community. Hirschl and Summers (1982) showed in their study that many more jobs were created by each dollar of transfer payments received by persons in a county than by each dollar of manufacturing wages.

The second policy perspective by which the economic and social well-being of people in both urban and rural areas can be improved includes funding, technical assistance, and other resources provided to local public and private organizations that help build community organizational infrastructure. The rural hospital construction in the U.S. and direct loans for elderly housing are examples of this kind of approach.

The third type of program with developmental consequences for the countryside includes those providing linkages among organizations and general ways to make individual organizations and programs more effective (Bradshaw and Blakely 1988). Rural housing market programs and industrial deregulation provide examples of this type.

To sum up, federal programs, both direct and indirect, are very influential to rural economic development. However, nonmetro counties, home to about one-fourth of the U.S. population, received only about one-fifth of federal funds disbursed in 1985. According to Dubin and Reid (1988), federal money supports very different programs in metro areas than in nonmetro areas. Spending in rural areas focuses on income redistribution (welfare and retirement), not programs that promote development.

Federal expenditures stimulate rural economies in two principal ways. They provide a temporary stimulus to economic activity by adding to the amount of income circulating in a community. Their investments in human or physical resources also enhance the economy's ability to produce. The multiplier effect is usually lower in rural areas than in cities, because of quick leakages, but investments may have a longer-lasting effect. Dubin and Reid conclude:

> "Whether this distribution of funds treats rural counties fairly cannot be judged simply by counting dollars. No standards exist for measuring equity in funding. Also, many programs benefit broad geographic areas, even the whole Nation, not just the community in which the funds are spent. As a result, comparing payments oversimplifies true urban-rural differences in benefits" (Dubin and Reid 1988, p. 2).

U.S. monetary and fiscal policies have an enormous effect on rural areas and their traditional industries. Compared with the federal government, states and localities are seriously limited in the policy responses they can make to deal with, for instance, industrial restructuring or trade. And what they often do is neither net beneficial to them, nor in the best interests of the national economy, as argued, for example, by Brown and Deavers (1988).

3.2.3. Other factors

Basically, the list of other factors influencing rural development in the U.S. would include all the other forces except the international and national factors considered earlier. To create such a list is, of course, an impossible task. And it would be still more difficult to rank these factors according to their importance. The development of rural areas is tied to the overall development of the society, and one can argue that every major change has some kind of an impact - direct or indirect - on the rural people and communities. Thus, only some of the major trends affecting rural areas in the U.S. are discussed below.

Changing demographic structure strongly influences many rural communities. Deaton and Weber (1988) list four major demographic changes that have shaped and will continue to affect rural areas in the U.S.:

(1) migration from the North to the South and West and between metro and nonmetro areas;

(2) the changing age structure of the population;

(3) increases in single-parent families and single-person households; and

(4) increases in female labor-force participation.

The **economic structure of rural areas** is changing as well. Differences in income, employment, and cultures between the city and the country have been altered by technological advances in communications and transportation and by the increasing integration of these different areas.

Migration of manufacturing firms from the cities into rural areas has been based on the comparative advantages of rural manufacturing, such as the cost of labor, reduced transportation costs due to the interstate highway system, generally cheaper land and

taxes, and special concessions to establishing firms (e.g. tax exemptions, rent-free plant facilities or, short-sightedly, less strict environmental regulations).

The U.S. **economy's shift to services** has dissimilar effects on urban and rural areas. Most of the new jobs created today are in the service sector, and urban areas are benefiting more from that development than rural areas. If the service sector of the economy continues to grow faster than other sectors, most nonmetro counties will likely have slower growth in total employment than urban counties (Henry et al. 1988).

Diversity in the local economy is expected to increase stability and enhance the potential for growth. Killian and Hady (1988a, p. 3) conclude that "the overall economic performance generally depends on both the diversity of the local industrial structure and the characteristics of the area's dominant industries."[19]

Deaton and Weber (1988) argue, too, that the **evolving conception of justice and human rights** has different impacts on rural and urban areas. Examples of this might include public education, equalization, and minimum wages, which can affect the location decisions of some industries.

One must not forget the importance of **public opinion** to development of rural areas. For many years, surveys have shown that most Americans believe that the overall quality of life in rural communities and on farms is superior to that in cities (Rasmussen 1985). Because the vast majority of Americans are already urban, their support to rural development policymaking is essential. However, when one thinks of the length of time farm programs have been supported (and still are!), it seems unlikely that this backing will change in the very near future.

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[19] Killian and Hady (1988) state that diversified rural economies fared better overall than the nonmetro average, but so did economies that specialized in education and government. The strength of both was their stability: they did not grow especially fast, but they grew steadily.

State and local efforts in rural development are at least as important as federal activities, but they are difficult to summarize. Usually the programs are unique to each area depending on local circumstances. Tweeten and Brinkman (1976) claim that the basic ingredients of economic growth are **attitudes of people, natural resources,** and **institutions.** In any case, human capital, resources, and institutions are the 'basic resources' that ultimately determine possibilities for and limits to development. When state and local endeavors are combined with these basic resources, development is encouraged.

Finally, **location** is an advantage - or a disadvantage - in rural development. "For many nonmetro counties adjacent to growing metro areas, their location is their most important developmental asset. Metro adjacency has been a significant factor in the growth of nonmetro areas throughout the 1960's, 1970's, and 1980's" (Deavers 1988, p. 381).

3.3. Characteristics of rural areas today

The social and economic structure of rural America is becoming steadily more diverse. The 1980s brought an abrupt reversal of the rural growth trends of the previous decade. The industrial and occupational restructuring of the rural economy continued. Nonmetropolitan population growth slowed dramatically, with over two-fifths of the nonmetro counties losing population between 1980 and 1986. Nonmetro unemployment surpassed metro unemployment. The 1980-82 economic slowdown also caused rural earnings to stagnate, the metro-nonmetro income gap to widen, and rural poverty rates to rise. Today, as rural America enters the 1990s, adjustments to the economic strains of the 1980s continue. A major feature of these adjustments is the diversity of responses in different types of rural areas (Hady and Ross 1990).

The trends characterized above describe in a nutshell what happened to rural areas and communities in the 1980s. Nearly one-fourth of America's citizens still live in nonmetro counties whose size also varies greatly; on the average each county has a population of over 23,000 people, but the range is from 91 to 193,000! (Long et al. 1987). Many nonmetro counties do not have a single community of sufficient size to achieve important economies of scale in public facilities and administrative services, nor agglomeration economies for the private sector.

Today, the terms 'rural' and 'urban' are end points on a continuum rather than separable categories, and rural and urban areas are interlinked in a pattern of spatial interactions that require the simultaneous consideration of activities in both areas (Deaton and Weber 1988). In many respects, the social and economic profiles of nonmetro areas as a whole have become more like those of metro areas, while nonmetro areas themselves have become more diverse (Hady and Ross 1990). Having stated this, Tweeten (1989, p. 290-291) lists six features that distinguish rural counties from urban counties:

> (1) Rural counties on the average have lower per capita income, higher poverty rates, higher dependency rates, and lower labor force participation rates.
>
> (2) Nonmetro counties have lower rates of population and employment growth.
>
> (3) Rural areas are sparsely populated, which offers environmental and other amenities but poses unique problems in providing quality community services at low cost per capita.
>
> (4) The industrial and occupational composition of rural counties is becoming more and more like that of urban counties, but still, nonmetro counties continue to depend more heavily than do other counties on extractive industries.
>
> (5) Self-employment is approximately twice as frequent in rural as in urban areas.
>
> (6) **Poverty** and **underemployment** are the principal economic problems of rural areas.

The "update" of classification of rural counties in the U.S.[20] by Hady and Ross (1990) reveals that the number of farming-dependent counties has continued its long-term decline (from 716 to 516) and that the number of manufacturing counties has decreased as well (from 621 to 577). Also, the number of mining counties has dropped steeply (from 155 to 124) compared to the previous classification in 1985. County groups that increased their share include government counties (from 233 to 358) and unclassified counties (from 398 to 542).[21]

Table 3: Percentage distribution of industry sector employment by metro-nonmetro categories in 1984

County or area	Resource industries	Manu-facturing	Construc-tion	Service sector	TOTAL
METRO	42.6	78.3	80.9	82.2	79.3
NONMETRO*	57.4	21.7	19.1	17.8	20.7
Urban adjacent	6.5	5.2	3.7	3.7	4.1
Urban nonadjacent	5.8	2.9	3.3	3.3	3.3
Rural adjacent	19.2	6.7	5.7	4.8	5.9
Rural nonadjacent	25.9	7.0	6.4	6.1	7.4
TOTAL	100.0	100.0	100.0	100.0	100.0

* Urban counties have at least 20,000 urban residents and rural counties have under 20,000 urban residents. Adjacent counties abut on at least one metro area.

Source: McGranahan (1988, p. 33).

The rural-urban distribution of industries and jobs is shown in Table 3 (above). Resource industries (agriculture, forestry, fishing and mining) are clearly the most rural

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[20] For the 'original' classification made by Bender et al. (1985), see section 3.1.1 (p. 25).

[21] Only four economic base types were updated (farming, manufacturing, mining, and government).

group. While only 13 percent of total U.S. employment is in rural (under 20,000 urban residents) nonmetro counties, about 45 percent of resource industry employment is located in these counties. Manufacturing is less rural than resource industries but more rural than either service sector or construction (McGranahan 1988). In general, rural areas tend to specialize in production industries, while urban areas tend to specialize in service industries.

Although the share of **agriculture** has declined, there are still counties where this traditional rural industry is pivotal. The 702 counties of classification conducted in 1985 (516 in 1990 study) depending on farming are largely concentrated in the Great Plains and western Corn Belt, with lesser concentrations in the Delta and Southeast (Bender et al. 1985). Moreover, there are 419 counties that are heavily dependent on agricultural exports, and 173 of these counties are also classified as farm-dependent.[22] These 173 most volatile counties are very sensitive to changes in agricultural export markets and most dependent on government programs.

Moreover, Carlin and Green (1989) have grouped rural counties into three classes according to their farm structure. These three groups are called small-farm counties, large-farm counties, and transitional counties. In the first group, 88 percent or more of farms had 1982 gross sales of less than $40,000. In the second group, fewer than 59 percent of farms had 1982 gross sales of less than $40,000. Finally, transitional counties belong in neither category but "lean one way or the other." Carlin and Green outline the future prospects of these counties as follows:

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[22] Export-dependent counties are defined as those having 50 percent or more of their farm sales in 1982 from export-oriented crops: corn, soybeans, wheat, cotton, and rice. These are concentrated in the Corn Belt and Delta States with lesser concentrations in the Great Plains and Southeast (Harrington 1988).

> "Communities in sparsely settled large-farm counties may face hard times from a lack of nonfarm economic activities. Small-farm counties generally have more diverse and vigorous economies...there is a relationship between farm structure and community characteristics but that relationship operates in both directions. As communities' economies diversify and grow, it is more likely that changes in the community will begin to affect the structure of the local farming sector" (Carlin and Green 1989, p. 16).

Manufacturing industries were hit severely by the recession of the early 1980s. Bloomquist (1988) writes that while the rural manufacturing sector has had substantial growth in recent years, most of the growth has been in manufacturing industries that provide low-skill and low-wage jobs. This pattern varies by region and gender, but has important implications on communities depending on manufacturing. For example, rapid job losses in low-wage manufacturing are likely to have a disproportionately negative effect on nonmetro areas.

Today, **service** industries employ many more rural workers than goods-producing industries, and most of the job growth in rural areas since the late sixties has been in the service sector. Since 1969, of all new nonfarm wage and salary jobs created in rural areas, over 80 percent have been in the service sector. However, rural areas do <u>not</u> appear to be attracting a large share of the "high tech winners" among new service jobs (Brown and Deavers 1988).

In sum, the **rural-urban division of labor** has several disadvantages for nonmetro areas. Both mining and agriculture are declining and likely will continue to decline. Routine manufacturing industries tend to be old industries with relatively stagnant demand and expanding foreign competition. Between 1979-86, production jobs in manufacturing declined 14 percent, but white collar manufacturing jobs increased by 12 percent, which affects rural manufacturing employment more adversely. Manufacturing

jobs, especially production jobs, are more susceptible than service sector jobs to business cycles and other macroeconomic fluctuations (McGranahan 1988).

There are also other potential disadvantages for rural areas than their industry mix. **Rural volatility** to business cycles and other instabilities seems to be compounded by the sparseness of rural settlement and distance from major employment centers. Layoffs are less likely to be balanced by hirings by another employer. Moreover, rural areas tend to specialize in slow-growth industries, which offer relatively few opportunities for new and expanding businesses (McGranahan 1988).

Rural communities are facing a far more competitive environment for maintaining an appropriate mix of **capital investment** at the local level. National and international factors may serve to draw local savings away without compensating reinvestment. Moreover, increasing uncertainty drives up the necessary rate of return to elicit private and public investments (Deaton and Weber 1988).

One typical and persistent characteristic of rural communities is **underemployment**. Lichter argues that

> "...nearly a third of the rural labor force is underemployed, whether through being out of a job, or working for low pay, or working too few hours. Yet only about third of them are counted as unemployed. Besides its direct economic effect, underemployment also exerts an indirect effect, hindering remedial efforts. Federal jobs programs, for example, often base their funding on the unemployment rate, inadvertently directing benefits away from rural areas" (Lichter 1987, p. 11).

Nonmetro residents are also more likely to be discouraged workers or have work disabilities than people in urban areas (Swanson and Butler 1988).

The **population composition** in today's nonmetro America differs from that in metro areas. Rural communities still have a higher proportion of children, relatively fewer younger adults and middle aged persons, and a larger proportion of elderly. And

nonmetro areas lost people to metro areas in the 1980s. Moreover, it seems that rural areas had the heaviest net loss among adults under age 25 (Swanson and Butler 1988).

Rural areas lag behind urban areas in **education**, too. The average education (years) for adults in nonmetro counties is less than in metro counties. High school dropout rates for young people are higher and the percentage of college-educated adults smaller in rural areas than in urban areas (Table 4) (Swanson and Butler 1988).

Table 4: Mean county values of selected education measures by metro and nonmetro residence, 1980

Residence	Adult education (years)	High school dropout rate (percent)	College educated (percent)
Metro	11.6	15.0	12.8
Nonmetro	10.9	16.9	9.2
United States	11.0	16.5	10.1

Source: Swanson and Butler (1988, p. 165).

Swanson and McGranahan (1989) conclude that nonmetro areas are less likely to send their youths to college and to hold on to those who do graduate:

> "Between 1987 and 1988, the nonmetro areas increased their college-educated population 4.4 percent from people moving in, but lost 6.8 percent from people moving out, resulting in a net loss of 2.4 percent. A similar loss has been repeated year after year in the 1980's, steadily reducing the pool of highly educated people in the nonmetro labor force...Prospects for bringing enough high-skill jobs to nonmetro areas to solve this problem are not encouraging" (Swanson and McGranahan 1989, p. 37).

Small towns and villages have shared in the recent economic and population trends of nonmetro America. Their principal role seems to be changing, however. Small towns and villages now serve primarily as residential rather than also as commercial and manufacturing centers (Johansen and Fuguitt 1990).

Between 1970 and 1980, more than half of the villages grew, but by 1980-86 the growth levels measured in the same way were lower than in the 1960s.[23] The most severe and consistent decline was in the retail/service sector. Consequently, the future of small towns and villages does not appear bright today; in fact many individual villages may be unable to recover from the recent declines in population growth and economic activity (Johansen and Fuguitt 1990).

Declining economic activity also has physical effects: the weakened political structures and revenue base makes it more difficult to replace the **physical infrastructure** upon which communities depend for such things as water, waste disposal, and transportation (Pigg 1986). In many parts of the U.S., the rural road system is in financial and physical trouble, and local governments must begin to look for ways to cope with a growing number of problems related to roads and bridges (Hamlett and Baumel 1990).

Finally, it is important to distinguish between **dependent** and **independent** nonmetro areas:

> "Residents of nonmetro counties adjacent to metro areas often commute to metro areas to work, to shop, or to enjoy urban amenities (such as airports, theaters, museums, libraries, and sports). In dependent areas, rural residents may come to depend on metro-provided public services to such an extent that it noticeably increases the public service demand in the metro area, while reducing the public service demand in the rural residents' own communities. As a result, tax and spending levels in such metro-dependent areas tend to be lower than in nonmetro areas with no nearby metropolitan area" (Reeder 1988, p. 5).

In essence, there are two rural Americas. Nonmetro communities within easy commuting distance of cities of 15,000 to 20,000 people can expect to attract many of the

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[23] In their study, Johansen and Fuguitt (1990) measured trends in population, retail/service, and manufacturing activity during 1960-87 in a random sample of all nonmetro villages under 2,500 in population.

same business types as their urban neighbors. Remote regions are the other rural America. There job and income growth opportunities are more limited and economic conditions more severe (Pulver 1988).

3.4. Summary

The recent decade reversed the favorable nonmetro growth trends of the seventies. The traditional sectors of rural areas, natural resource-based industries and manufacturing suffered from unfavorable trade conditions and from the recession of the early 1980s. Also, the nonmetro population growth slowed drastically and rural unemployment again exceeded urban unemployment.

Although the farm problem received the most publicity, the social and economic problems of rural areas were felt much more broadly than just in the counties that depend primarily on farming. Generally, the socioeconomic structure of rural America continued becoming increasingly diverse. This trend is likely to endure into the 1990s, which will call for more flexible - and more diverse - policies and programs.

Overall, the prospects for the future in rural America are much more gloomy than what they were one decade ago. Rural areas in the U.S. - as well as in many other industrialized countries - have become more vulnerable to world trends, and the uncertainty can be expected to increase. Indeed, the only thing one can predict about the future today is that it will be less predictable tomorrow. Reid (1989) anticipates that rural areas have now resumed their historic struggle to maintain an acceptable quality of life against difficult odds:

> "The rural economic slowdown of the 1980's reflects fundamental weaknesses in the rural economy: a long-term decline in the relative importance of resource industries as employers, the pressures of technology and foreign competition on employment in low-wage rural manufacturing industries, the endemic liabilities of small population

concentrations and distance from major urban centers, and chronic weaknesses in the rural labor force due to lower educations and poorer skills" (Reid 1989, p. 358).

4. HOW TO COPE WITH THE CHANGE: LOOKING FOR NEW POSSIBILITIES FOR RURAL AREAS

Rural people and communities both in the U.S. and in other developed countries have tried to cope with the malaise caused by the economic slowdown of the eighties. Moreover, virtually all societies have attempted to cushion the structural transformation and to improve the conditions of people living in the countryside or small towns.

Although the future does not look very bright today, the outlook is not completely pessimistic. Considering the diversity of rural areas, the main approach should be to combine local efforts with complementary national policies in each affected country. Both rural community efforts and governmental help will be needed.

One of the main difficulties in augmenting the viability of rural areas is how to combine, on the one hand, the demand for new sources of livelihood and pressures to change as the society changes, with, on the other hand, the importance of preserving the unique features of the countryside. The fragile balance in rural areas has developed over centuries, and the most important objective is to foster the development of rural areas by guaranteeing the continuity and preservation of regional characteristics and amenities for future generations.

This chapter discusses different possibilities for preserving and increasing the viability of rural areas, including the role of agriculture and other rural industries, new sources of livelihood, and local and other factors that contribute to this process. This is done mainly from the U.S. point of view, but many of the observations are applicable to other industrialized countries as well.

4.1. Role of agriculture

Agriculture, the traditional sector of the rural economy, will most likely continue its decline in the coming decades. However, the significance of agriculture will vary remarkably in different countries and regions. For many rural communities, particularly in countries where the share of agriculture is still quite high (around 10 percent, for example), farming will be the backbone of the rural economy.

But, even in the U.S., agriculture remains important to both the rural and national economies. In 1987, the food and fiber system, including farming and farm input and processing industries, employed 17 percent of all U.S. workers and contributed 16 percent of the GNP. However, farming contributed only one percent of GNP and less than two percent of employment.

As stated earlier, farming is not synonymous with the rural economy in the U.S. Although most rural land remains in agriculture, farming accounts for only nine percent of nonmetro employment. But in nonmetro areas, the food and fiber sector makes up a larger share of the economy than in metro areas (Edmondson et al. 1988).

It is anticipated that continuing technological advances will further decrease the number of farms and farm workers over the next several decades, even as farm production continues to grow: "Between 1977 and 1987, labor productivity in the farm sector grew by 42 percent, exceeding the growth in demand for agricultural products" (Reid 1989, pp. 359-360). One consequence seems to be a continued shift to 'duality' in the farm structure.[24]

Reimund and Petrulis (1988) state that the major external forces affecting the performance of the agricultural sector during the past few decades have been macro and

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[24] See section 2.2.1. (p. 10) earlier.

international economic conditions, farm programs, and technological innovation. According to them, continued productivity increases in both the farm and off-farm agricultural industries indicate that the sector will not contribute to rural employment growth in the foreseeable future.

As the society has developed, the role of farming has changed. Earlier, and partly still today, agriculture has been viewed as a different type of business operation, which includes 'way-of-life aspects,' and where the distinction between the home and business is fuzzy. But farming is no longer the unique and independent sector that it used to be (Paarlberg 1978). Today, it requires tremendous off-farm inputs into the production process.

Lovejoy and Ayers (1986) argue that American agriculturists find themselves in two vastly different types of communities. The local community is the one where their children go to school, where they do their daily business, etc. The broader community is a mixture of national and international interests. One important function of the local community has been to serve as an arena for communication among farmers, agribusinesses, educators, the industrial sector, etc. It is unclear whether technological advances, in telecommunications for example, will replace this function of local communities. In any case, the activity of farmer organizations and interests is already focused predominately at the national and international levels, and to a lesser degree, at the state level.

All in all, the importance of farming for rural economies in the U.S. (and in other countries as well) seems inevitably to be declining. However, if one examines the whole food and fiber sector, the situation is somewhat different. The expenditures for the output of the food and fiber system include the following five broad categories (Edmondson et al. 1988):

(1) personal consumption expenditures on food;

(2) personal consumption expenditures on other things (clothing, shoes, tobacco products, flowers);

(3) other final demands;

(4) agricultural exports; and

(5) agricultural and textile imports.

Food and fiber sector jobs are important for rural economies. These jobs account for slightly more than one in five of all rural jobs in the U.S. But such jobs account for almost one in five urban jobs, too (Edmondson et al. 1988). Employment in the food and fiber system constitutes 18 percent of jobs nationally; 22 percent of nonmetro jobs and 17 percent of metro jobs. However, there is a significant amount of variation among states: in California, 35 percent of **nonmetro** jobs are in the food and fiber system, and in South Dakota, 41 percent of **metro** employment is in that sector.

The significance of forward and backward linkages of the farm sector can be estimated, for example, by calculating location quotients or the number of nonfarm workers in agribusiness industries and in industries wholesaling and retailing farm products per 100 farm workers. Although these are rough measures, they imply a framework for studying relative local, regional, and national multipliers stemming from farm, export-based activities (Hines et al. 1986).

In sum, the importance of agriculture varies considerably among regions. When examining the significance and role of farming, there is one thing important to keep in mind: farming is an extremely heterogeneous sector, ranging from recreational hobby farms to large-scale businesses! **On the average**, however, farm sector's share of employment is decreasing and nonfarm industries are increasingly necessary to sustaining life in rural areas.

Reid (1989) claims that farming's importance to farm families is also shifting. In much of nonmetro America, farming is increasingly a lifestyle choice that must be sustained by work off the farm. The impact of this kind of development is not necessarily negative. For example, Deaton and Weber write:

> "Nonfarm employment helps determine family income in important ways, and it further influences economic development through its impacts on both capital and labor markets by reducing family income risk, by generating savings, and through services provided by rural communities to the farm population"..."[it is] likely that transitions from traditional to alternative technological enterprises are occurring more rapidly and smoothly in those parts of the country where nonfarm job opportunities are more prevalent" (Deaton and Weber 1988, pp. 413-414).

Shaffer et al. (1986) emphasize the interdependencies between the rural economy and farming: the relationship is two-directional and synergistic. Traditionally, rural communities affected farming via their role as trading centers for the surrounding farms. The loss of local retail establishments, for example, affects both farm and other rural families in similar ways, reducing access to the service and/or increasing travel costs.

For a long time, farmers have become more closely linked to the nonfarm economy, both in their purchases of inputs and selling of outputs. But, more and more, the overall growth of nonfarm wage and salary employment in a rural community affects all residents. The expansion diversifies the export base, and the growth of nonexport activities improves local access to goods and services and the quality of life. For farmers especially, the appearance of nonfarm jobs may enable many farm families to continue operating on less than full-time farming units. Shaffer et al. (1986, p. 70) conclude that

> "...attempts to diversify and develop the economies of rural communities must not be viewed as competitive with a viable farming sector. Care must be exercised in understanding the impacts of the alternative economic changes being proposed on farm families and the rural economy."

Although part-time farming is increasing, the number of farms is expected to decline. Demographic trends in the U.S. show the low numbers of young people choosing farming as a career and the continuing aging and retirement of current farmers. These two factors combined may hasten the decline in farm numbers, increase average farm size, affect the balance between farm operators and farm owners, and retard U.S. farming's productivity growth (Smith 1988).

It is predicted that as many as 300,000 U.S. farmers may leave farming by the turn of the century while many others will take supplemental off-farm jobs to enable them to remain in farming. However, many farmers may find it difficult to enter job markets, since they are generally older and have less education than others in the local labor force. In addition, they tend to live in areas where employment opportunities are limited and wages are low (Parker and Whitener 1989).

Today, the U.S. farm sector is faced with excess resources, and this situation is likely to be magnified with biotechnological innovations. Thus, further restructuring in farming seems unavoidable. In agricultural input, processing, and marketing industries the overall employment is expected to remain at current levels. Only in wholesale and retail trade is the number of jobs predicted to increase (Reimund and Petrulis 1988).

Although the farm and agribusiness sectors are still an important component of the rural job market in every farm production region, they are unlikely to make any significant contribution to overall rural employment growth. This argument is based on slow growth in domestic markets for farm commodities, continuing improvements in labor and resource productivity, and poor prospects for achieving the rate of export growth that was prevalent in the 1960s and 1970s.

Finally, Barkley (1988) has listed some institutional issues that may affect agriculture and rural areas, and would have an impact on the role of agriculture as well:

(1) changing structure of factor and product markets;
(2) changes in the traditional "bundle-of-rights" approach to the exclusive ownership of land;
(3) increasing complexity and number of institutions surrounding water rights and water use;
(4) reregulation after a period of deregulation;
(5) increasing interests of rural nonfarm residents in the way agricultural resources are used;
(6) rapidly escalating public costs and diminishing nonland tax bases in communities highly dependent on agriculture;
(7) technical change reducing unit prices and/or expanding output per acre of many agricultural commodities;
(8) changes in the structure of land ownership because of "process of parcelization";
(9) changing methods of transferring the ownership of land and nonland agricultural resources;
(10) persistent redundancy among all classes of inputs used in agricultural production; and
(11) uncertain and volatile price of farm land.

4.2. Other sources of livelihood - old and new

Having enough economic activity is essential for the welfare of any one community; many times it can be a matter of life or death. Trying to find new sources of livelihood and taking care of the existing ones is necessary for rural communities and their people. A declining economic base has many consequences for a community. Direct effects are felt in changes in employment and income of residents. Indirect effects reduce tax revenues, for example. And social impacts are seen in the deterioration of social relationships and community activities.

Traditionally, new industries that have been attracted to rural communities have been mainly either manufacturing or agricultural processing firms. They have provided 'basic' (export) employment and fared quite well, at least until the 1980s. Although industrialization has helped develop many rural communities, it has been by no means an unmitigated success (Tweeten and Brinkman 1976). Some of the failures can be attributed to poor understanding of industrialization and inadequate preparation. Other

times, this 'smokestack chasing' has made things even worse in a rural community, when, for example, a plant has polluted the environment and left the community.

In general, the major costs and benefits from industrializing small communities can be grouped as changes in (1) employment and income; (2) tax revenues and expenditures for local government; and (3) property values (Tweeten and Brinkman 1976). But what are the possibilities for rural communities today to attract new industries?

There are some factors that communities have little control over and other factors that can be affected by local actions. The former might include proximity to markets and raw materials, transportation routes, labor, state laws and development policies, and the special preferences of firm managers. The latter might contain the attitude of the community toward developing industry, facilities, financial assistance, taxes, community characteristics, and special incentives (Tweeten and Brinkman 1976).

In sum, economic activities are needed, but the basic question remains one of whether rural areas can compete for industries that have the best prospects for growth and success, or must they be satisfied with something less?

Nonmetro areas outpaced metro counties in employment growth in the seventies but fell far behind in the early eighties. Between 1979 and 1984, **manufacturing** was a leading source of growth in nearly every fourth rural county and a leading source of decline in approximately every third nonmetro county. Causes can be traced to different kinds of manufacturing and differences in the age of manufacturing facilities (Bluestone and Long 1989). In any case, basic manufacturing seems not longer to be a 'guarantee for growth.'

McGranahan (1988) writes that firms dealing with volatile or unestablished markets, rapid technological change, etc. will favor metropolitan locations where they

have ready access to information, specialized skills, and professional expertise. On the other hand, industries in relatively stable conditions, with routine production technology and established markets, have less need of face-to-face relationships with information sources and experts and are more suited to smaller towns in remote areas.

Service industries accounted for 85 percent of the employment growth in nonmetro areas in 1969-84, and all of it in metro areas. Urban areas seem to be the prime beneficiaries of growth in advanced producer services, such as data processing, insurance, brokerage and other administrative services, management consultation, legal services, etc. (Bluestone and Miller 1988). Rural areas with natural recreational and environmental amenities can specialize in service industries catering to tourists and retirees, although these jobs tend to be seasonal and/or require special services.

However, growth of the service sector in both rural and urban areas is also tied to growth in the goods-producing sector. As goods-producing firms expand and as incomes of workers in that sector rise, more services will be bought. Based on this fact, Bluestone and Miller suggest that

> "[Rural policymakers] should consider exploring the feasibility of developing the local economy by substituting local services for those previously sought outside the community while waiting for their goods-producing industries to recover from their current difficulties or by building up new sources of income by attracting retirees or tourists" (Bluestone and Miller 1988, p. 18).

Killian and Hady (1988b) list some remedies to declining or disappearing local economies: support for declining rural industries; diversification of one-company towns; recruitment of high-tech, high-growth industries; and improvement of the quality of human capital in rural areas through education. Rural development strategies should attempt to **diversify rural economies**, since areas with a broad mix of industries are less affected by downswings and crisis in the larger economy.

However, the performance of a local economy is a complex, multidimensional problem. Not only local factors, but also political decisions, domestic and international, affect what happens locally.

Encouraging **local entrepreneurs** and the firms they start is one method in rural economic development. Malecki (1988) argues that this might be more important than trying to lure branch plants from elsewhere or assisting existing business to expand. This "homegrown" job creation is one way to diversify local economies beyond branch facilities of large corporations.

Supporting entrepreneurs is not always so easy, however, in rural areas that lack many things which may be essential for new firm formation. These critical factors include the following: capital/financing; entrepreneurial climate[25]; information networks; innovation; and other factors, such as availability of land, services; labor force, etc. (Malecki 1988).

Small local firms have their problems, too. Many of them fail within the first few years and jobs generated by them appear to be less stable and less permanent than jobs in affiliated firms. Miller (1985, p. 10) suggests that "small business investment strategy should be combined with the traditional rural development strategy, luring branch plants of major corporations. Both are needed to assure growth and job stability." Malecki (1988) states that rural areas generally fare well on the factors associated with attracting branch manufacturing plants: labor costs, transportation access, raw materials, and business climate.

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[25] Malecki (1988, p. 19) writes that "European experience has suggested that agricultural regions are the least likely to have new firms, largely because **entrepreneurial role models are often absent from the local culture**." My experience from Finland does not support this conclusion: often local entrepreneurs have started from farm-related enterprises. And is not farming a form of entrepreneurship, too?

Sometimes **retirees** are considered a major resource for economic development in rural areas. Attracting retirees to a rural community has at least two advantages: pensions and Social Security income are often derived from earnings elsewhere; and the elderly tend to spend more of their income in local communities rather than regional shopping centers. Retirement communities in the U.S. have grown largely due to the lifestyle amenities provided to retirees with Social Security income (Bradshaw and Blakely 1988).

But retirement communities have some weaknesses as well. The main questions raised concern the quality of the jobs created and about retirees' apparent coolness to funding education and road building programs. Deterioration in education and transportation most likely would limit an area's long-term economic development prospects. For example, in 1982, retirement counties spent 10 percent less per resident than nonmetro counties in general on local education and 28 percent less, per capita, on highways than the nonmetro average (Reeder and Glasgow 1990).[26]

In any case, Social Security is attractive to rural development because it is locationally independent. It is a powerful stimulus for three reasons: benefits have tended to flow from urban to rural areas; retirement counties become centers for other development (e.g. hospitals); and the retiree brings a resource of considerable skills and talents for local economic development (Bradshaw and Blakely 1988).

In fact, **transfer payments**, such as Social Security, are a large and growing source of income in U.S. rural areas. From 1969 to 1987, transfers grew from 11.6 to 18.7

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[26] A surprising finding in their study was that local governments in retirement counties actually spend 11 percent **less** on public health and hospitals than the nonmetro average. The reason for this might be that these counties have fewer poor and they suffered less from depopulation.

percent of nonmetro income.[27] Such transfers do have a stabilizing effect on rural economies, but they also make local economies more sensitive to changes in government programs. Relying on the transfer income of the elderly can be a viable development strategy only in the short run (Hoppe and Ghelfi 1990).

New **information technologies** might be able to integrate rural communities more closely with urban centers. But while allowing rural businesses to compete better for urban jobs, those technologies also allow urban businesses to compete better for rural jobs. Thus, if rural Americans are to find jobs and if businesses in rural communities are to be competitive, they too must master these technologies. As a consequence, prospects for success are uncertain (Dillman et al. 1989).

Information technologies can pose a threat to businesses in a rural community, since local services will be less protected by geography and distance than ever before. But, as Dillman et al. (1989, p. 26) conclude, "the question of whether information technologies will further centralize the U.S. population around large urban centers or decentralize it has not been answered."

One rapidly growing sector is **high-tech firms**. The survey by Smith and Barkley (1989) in nonmetro areas of the West revealed that these firms offer better paying jobs than low-tech firms and that they also tend to employ more people. Most high-tech firms seem to prefer the big city, but some nonmetro counties, especially those on the urban fringe, can also attract them. The conclusion of Smith and Barkley (1989) is that high-tech firms can contribute to rural economic development, but the specific

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[27] Transfer payments include retirement and disability programs, medical programs, public assistance (welfare) programs, unemployment insurance, veterans' programs, and other miscellaneous sources.

contributions will vary depending on whether the establishment is a branch or unit plant.[28]

Biotechnology is another sector that will affect rural areas. Its benefits may come chiefly in expanded demand for new raw materials necessary for industrial-biotechnological production. Its drawbacks may include declining farm numbers and the displacement of rural workers in chemical and pharmaceutical facilities rendered obsolete by new technology (Buttel 1987). The effects of biotechnology are still mostly unknown, however, and cannot be said to be either unambiguously good or bad for rural America.

All in all, new rural jobs will likely be concentrated in one of the service industries, will involve information work, and will have a strong connection outside of the community where they are located. But the problem of creating rural jobs in today's information-based service economy is as much social and cultural as it is technological and economic (Dillman et al. 1989).

4.3. Contributing factors in augmenting viability

Although the decline of agriculture and the out-migration of people from rural areas has been the leading 'force' in rural development, there has been some opposite pressure, too. The nonmetropolitan population turnaround that took place in most Western countries particularly in the 1970s is one example of 'new and unpredictable trends' that could change the direction of development. Moreover, the move from cities

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[28] Smith and Barkley warn that rural counties should **not** totally concentrate their industrial inducement efforts on high-tech sector. These industries constitute less than 25 percent of the nation's employment in manufacturing and business services, and the amount of rural high-tech employment is only a small fraction of this. Thus the competition for new plants or relocations will be intense.

to rural areas has a different motivational basis than the more traditional move in the other direction.

Blakely and Bradshaw (1985, p. 14) conclude that "rural areas offer people an ideal opportunity to enhance their life styles and achieve a particularly high quality of life." According to their research, the primary factor influencing rural migration is the prospect for an improvement in housing and property, perceived safety and comfort, and the ability to follow recreational interests.

However, this turnaround does not have only positive effects on communities and rural people. In-migration may contribute to impoverishment of the local community (Fitchen 1988) or augment the ownership of farmland and nonland resources by nonfarmers (Rodefeld 1978).

As known, population growth in rural and smalltown areas of the U.S. slowed greatly in the 1980s, especially in 1983-86 (Beale 1988). More than half of all nonmetro counties declined in population from 1983 to 1986. Annual population growth in nonmetro America was 0.83 percent between 1980 and 1983, and 0.42 percent between 1983 and 1986. The figures for metro areas were 1.10 percent and 1.12 percent, respectively.

In addition to out-migration, falling nonmetro birth rates have contributed to the drop in the population growth. In the fifties and sixties, the nonmetro birth rate in the U.S. was over 20/1000, but during 1980-86 it was 15.6/1000. The death rate has stayed about the same, slightly under 10/1000. Thus, the yearly average population growth from births minus deaths in rural America was only 0.6 percent in the first half of the 1980s.

Still, there were two bright spots in this 'reverse turnaround.' Retirement counties continued to attract new residents, both older and younger, and their annual

population growth was 1.78 percent from 1980 to 1986. Also, nonmetro counties with a fourth or more of their residents commuting to jobs within the metro area increased their population 1.13 percent per year between 1980 and 1986.

Although growing, even the retirement areas showed a substantial slump in the rate of population growth compared to the situation in the 1970s, as did other nonmetro counties in the first half of the eighties. Long et al. (1987, p. 10) pose a question of "whether the strength of the attitudes and values that led many people to seek rural and smalltown living for quality-of-life reasons has begun to wane."

U.S. Gallup polls questioning where people prefer to live show some change in preferences from the late 1970s to the middle 1980s (Table 5).

Table 5: Where Americans prefer to live

Preference of residence	1978 (%)	1981 (%)	1985 (%)
Large city	14	18	23
Small city	32	28	29
Town or village	20	20	23
Rural area	32	34	25

Source: Beale (1988, p. 6).

In any case, the 1970s showed that there are conditions under which small-scale areas can retain their natural increase and also attract new residents. On the other hand, it has been shown as well that major recessions in production industries can have widespread and disproportionate effects on the population supporting capacity of nonmetro counties (Beale 1988).

Thus, good prospects for economic growth and employment in rural areas are able to increase in-migration. But the attractiveness of rural areas cannot be explained

by economic factors alone. It also depends on socioeconomic conditions in cities, towns , and in the countryside, and on what people perceive their overall well-being to be. Still, according to polls, there are millions of Americans not presently living in a smalltown or rural area who say they would prefer to do so.

There are many factors in modern society that can augment the 'pull' towards rural areas. Greater mobility and better transport; congestion and pollution in cities; increasing leisure time, tourism, and recreation; improvements in telecommunications and other related technologies; etc. The main question still remains: are rural areas able to benefit from these new possibilities? For example, Bluestone and Miller (1988) conclude that the revolution in communication and information technology may allow services to decentralize to rural areas, but that development has yet to show up in any significant way.

Tweeten (1987) suspects that the high technology of microprocessors, computers, and telecommunications will probably affect rural areas less than the low technology of tractors, fertilizers, and automobiles. His "best guess" is that these new technologies will put nonmetro areas more in touch with the rest of the world, and reduce their socioeconomic uniqueness, but high technology will not be the deciding factor that gives a comparative advantage to rural areas over cities.[29]

One important element in the U.S. rural development is the interstate highway system. Most of the development spurred by the interstates takes place around the interchanges, which give travelers easy access to and from the road network. However,

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[29] For a few years, there has been an experiment of "telecottages" in Scandinavian countries. These cottages are dataprocessing centers, usually set up in remote rural districts. So far, the results have been quite encouraging.

Moon (1987) claims that local communities have failed to take advantage of the effects of interchanges, although they have a great potential for local development.

All in all, the attractiveness of rural areas is an extremely complicated issue ranging from local economic activity to national and international trends. One important factor is what kind of images people have about rural areas. These perceptions directly affect the willingness to visit or to move to the countryside, and indirectly via 'public opinion,' affect policy decisions concerning rural areas. Thus, cherishing a positive image of rural areas is one of the best 'strategies' rural 'defenders' can have to preserve the viability of rural areas. One example of efforts to revitalize the countryside or at least to get more publicity for rural problems, has been "The European Campaign for the Countryside 1987-1988."

Particularly in Europe, the 'environmental movement', Green parties, revitalization of grass-root level organizations, seekers of 'alternative life-styles', etc., are giving new hope for a better future for the countryside. Mormont (1987), for example, writes about "new rurality" as an ideological process where nature and things rural are the basis for a critical view of society and development:

> "...the aim is not to recreate a past way of life but to develop forms of social and economic life different from those prevailing at present and where: rural as a social identity is the result of an individual or collective decision and not due to tradition; rural character is defined less on the basis of activity or locality than the way production or space is managed; local communities are more autonomous and negotiate their exchanges with the outside world" (Mormont 1987, pp. 18-19).

However, looking for economic activities at any price can also pose serious threats to the countryside. Bohner (1987) lists both external and internal dangers to the European countryside. External threats include imported pollution, the tourist industry, pressures on the countryside and transformation of the landscape, the influence of urban habits, the weakening economic background, loss of political weight, and backwardness in

public utilities. Internal threats include the balance between agriculture and environment, depopulation, and loss of identity. Thus, both the advantages and disadvantages of new activities must be carefully examined before development policy decisions are made.

4.4. Local contribution

It seems evident that rural communities will have more responsibility in guiding and enhancing local development. Often this local participation is even essential for these efforts to succeed. But is there something that can be done immediately by communities to create opportunities for rural development, and to recognize and take advantage of those opportunities when they appear?

Traditionally, rural communities have invested heavily in attracting manufacturing firms, to the exclusion of other avenues of job creation and capital accumulation. While such recruitment, when successful, can generate jobs, these jobs are often relatively low paying, with high labor turnover, as well as factory turnover (Flora and Darling 1986). These are often firms that tend to be 'footloose', i.e. quick to move on.

But why are some rural counties growing while others lag behind? The economic base of a county is an important part of the answer. Henry and Gibson (1988) show in their study that 'traditional' rural counties[30] have lost employment share nearly across the whole employment spectrum. The 'new' rural counties have gained in nearly every category. Moreover, the employment gains and losses have been concentrated in a

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[30] Counties that are dominated by traditional rural economic bases, i.e. farming, mining and manufacturing. Henry and Gibson (1988) used a shift-share analysis to calculate changes in employment.

comparatively small number of employment categories (manufacturing, retail, and services).

Henry and Gibson (1988) also found empirical evidence to support an economic theory which provides some clues in finding attributes of successful rural counties. Location economics suggests that firms are more likely to expand or locate in places where labor and transportation costs are lower; where there is greater access to inexpensive business and local government services; and where the size of the community, in terms of land and population, will support business expansion. Thus, although all of these factors are not locally controllable, rural communities have policy tools at their disposal for influencing growth. The question is how to overcome the weaknesses and utilize the strengths of a community.

Deaton and Weber (1988) emphasize that increasing the local share of human capital will significantly alter the competitiveness of rural areas in the information-based economy. They suggest that successful rural communities will be those that

> "design institutions to marshall and channel capital in support of local investments; successfully broaden the base of equity participation in the local economy; create effective partnerships with state governments and with the broader private sector of the state; and effectively use traditional industrial incentives to broaden their economic base" (Deaton and Weber 1988, pp. 421-422).

The necessity of human capital development and expanding local participation seems to get more and more attention in rural development proposals. Bradshaw and Blakely (1988) conclude that releasing the full opportunities of all people greatly expands the local human potential and provides greater opportunities for everyone. Lovejoy and Ayers (1986) emphasize the importance of community cohesiveness and call for grass-root organizations, both formal and informal. And Johansen and Fuguitt (1990) point

out that the future growth or decline of rural villages in the U.S. may depend increasingly on the success of local efforts.

Education is a way to increase local human capital and enhance adaptability. Higher levels of education in a rural area reinforce the population's chance of meeting economic challenges, knowing how to create or attract new jobs, and competing for higher paying jobs (Swanson and Butler 1988). Pigg (1986) writes about "community intrapreneurship" as ways to halt or slow the leakage of economic resources already available in the local economy.

Tweeten and Brinkman (1976) state that although development may take place at several levels, the key level for reaching people is the local level. Local initiative, therefore, is essential in making development programs work. Rural Development News (1990) writes about the "bottom-up approach" as the opposite to the "top-down approach" where developers or projects are brought into a community.[31]

The process of **community development** relies on local participation. Broad-based citizen participation builds and strengthens local capacity, and with a higher level of local capacity, communities are more likely to take advantage of economic opportunities. For example, a study in Pennsylvania showed that the level of activeness in a community has an important effect on its ability to obtain funds to promote economic development (Ryan 1988).

Ryan (1988) finds it crucial that rural economic development policies and programs are implemented in ways consistent with two community development goals, including local residents and organizations in economic development activities, and

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[31] Examples of this approach are the Kirkwood model (Iowa) and the Esperance model (Australia).

strengthening local capacities to assure effective responses to future situations involving economic development.

In sum, the importance of local efforts and participation in the economic development of rural areas is more likely to increase than decrease. But potential successes will turn out to be failures if policies at the national (and state) level do not contribute to local development programs. A holistic, multidisciplinary approach is needed both in local procedures and in national policies.

4.5. Summary

Preserving and increasing the viability of rural areas is not a simple thing to do. Many traditional industries in nonmetro areas have been declining and are likely to continue to do so. On the other hand, rural regions seem to be unable to compete with cities for new, high-tech industries.

Improvements in transportation and telecommunications provide rural people and communities with more possibilities for economic development. Much seems to depend on local efforts, and the significance of human capital is ever increasing. Also, the solutions are often unique and have to be found and developed inside the community. However, if national policies do not support local goals for development, many attempts are doomed to fail and more and more rural areas will be bypassed in the development of society.

Dillman (1988) has listed five main concerns that are notable for the future prospects of rural America:

(1) development of an information infrastructure;

(2) who will live in rural places?;

(3) changes in farm operations;

(4) changes in mutual support among farmers and farm groups; and

(5) maintaining institutions that serve rural America.

All these issues will influence the opportunities for development in rural areas in the coming decades. But the critical question still remains: where and how can new possibilities be found to strengthen the economic base of rural communities?

Farming will remain a significant economic activity for many nonmetro regions, although its share of total employment is very unlikely to grow. The food and fiber sector will probably also employ fewer people than today. However, there seems to be more potential for small local enterprises to fill market niches with special food products, for example.

The possibilities for farms and small-scale farming-related enterprises will depend on legislation and policy decisions. If, for instance, part-time farms will be seen as means for preserving the family farms and the overall viability of rural areas, the number of farms will decline at a rate slower than now expected. In fact, direct support to farms as a means to maintain the population base and scenic landscape could be an appropriate rural policy option.

Chances for attracting new industries to a rural community depend on many interrelated factors. Local activity and careful examination of strengths and weaknesses will be key elements in this effort. However, in order to compete with urban areas in the long-run, rural communities clearly need to enhance their human resource base.

The heterogeneity of rural areas today makes it impossible to give detailed prescriptions for any individual community on how to increase its economic viability. Investment in human capital improvement is a sound long-term strategy, but it does not provide quick help for communities with declining economic activity. National policies

should help in alleviating the disadvantages. After that, a community's success will largely be based on local leadership, action and effort.

5. IS THERE A NEED FOR RURAL POLICY?

Mobility of resources is an important way of amending differences in levels of growth between regions, but the movement of people from declining rural areas to expanding urban areas may also be costly - and often politically unpalatable. The human costs of changing geographic location and/or occupation should be balanced against the economic costs of intervention, but there is no totally satisfactory way to do it.

Dillman et al. (1989) argue that how the population is distributed is important to all Americans. It involves many tradeoffs affecting people's quality of life, such as effects of urban congestion versus broader job possibilities. Thus, the issue seems too important to leave only to rural residents or only to urban residents or only to market forces to decide: "Policy discussions need to commence now, when the focus can be future-oriented rather than remedial" (Dillman et al. 1989, p. 27).

There appears to be arguments both for and against rural policies, or perhaps more accurately, for what would be the 'right amount' and type of government intervention for the development of rural areas. This chapter examines the justifications for rural policies: why they should be favored over agricultural policies, and what is the role of government in rural development. As before, observations are made primarily from the U.S. perspective, but findings and conclusions are generally applicable to other industrialized countries as well.

5.1. Reasons for rural policies

One could argue that the decline in the relative socioeconomic well-being of rural areas is a consequence of natural evolution: if rural areas cannot compete in today's economy, why should they receive 'artificial respiration'? Although there may be some

short-run problems of relocation, in the long run everyone would be better off. Thus, the only rural policy needed would be helping to transfer rural resources to urban areas.

There are contrary opinions as well. Pulver (1988), for example, points out several economic variables that might justify further state and federal expenditures in rural areas:

> * For generations, rural areas have been investing in the development of human resources that are exported to urban areas - creating costs in rural areas while net benefits accrue to urban areas.
>
> * There are large sunk costs in private and public infrastructure in rural areas (homes, stores, offices, roads, schools, etc.), not to mention the investment in social and political institutions.
>
> * No serious effort has been made to account for the externalities associated with rural to urban migrations (crime, delinquency, mental stress, etc.) - are there added costs from the increased concentration of human population? Public expenditures that focus on encouraging people to stay in rural areas may or may not be justified on the basis of externalities.
>
> * Rural regions continue to be critical locations for the production of specific goods and services (farming, forestry, mining, tourism and recreation, military establishments, waste disposal sights, etc.). A minimum level of public and private infrastructure is necessary to support persons employed in these industries. Public policy encouraging other firms to locate in these regions might also be justified as a mechanism for reducing per capita costs of the fundamental infrastructure.

In addition, many people choose to live in less populated areas, finding the pace and style of life outweighs the greater economic opportunities of a metro area. Those who make this choice should not become victims of public policy neglect.

In the U.S., there is no federal development policy for rural areas.[32] Instead they receive only small piecemeal programs administered by diverse federal agencies with a narrow perspective. Bringing people to jobs has been by far the largest and most

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[32] There has been legislation, however, to improve coordination of rural development efforts in the U.S., including the Rural Development Act of 1972 and the Rural Development Policy Act of 1980.

effective 'program' to raise income of rural people. The exodus from the countryside to cities has contributed to economic growth, but federal programs have done little to ease the burdens of migration by assisting people before or after the move (Tweeten 1989). Today, there seems to be increasing agreement on the necessity of a national rural development policy (Brown and Deavers 1988, Bonnen 1990).

However, as Reid and Long (1988) conclude, developing a "rural policy"[33] for the 63 million people who live in America's open country and small towns is a complex task. The complexity is attributed to a lack of consensus on what rural problems are most critical, the proper approaches to dealing with them, and, fundamentally, what constitutes a "policy."

While conditions in rural areas can be measured objectively, differences in the values and assumptions of the people interpreting them produce substantially different definitions of what constitute the important rural problems. Reid and Long (1988) list some conditions that cause malaise for rural America:

> * The most salient condition is the economic disadvantage of rural areas in comparison to urban areas. On the average, nonmetro residents have lower incomes and living standards.
>
> * Rural areas generally trail the big cities and suburbs in providing basic public services and material conditions associated with a better quality of life, or even minimal well-being.
>
> * The long-term contraction of the agricultural sector and the accompanying changes in farm structure cause concern to many people, both urban and rural. Many Americans believe that it is important to preserve the social and economic unit called the 'family farm.'
>
> * A common feature of many nonmetro communities is a stagnant or shrinking population base.

* * *

[33] For the definition of the term 'rural policy', see section 1.2.4. (p. 5) earlier.

> "Among the major controversies in formulating the rural policy problem are whether the policy should focus on people or places; whether it should emphasize the most disadvantaged places or those with a reasonable chance of success; and whether it should emphasize social equity or economic efficiency" (Reid and Long 1988, p. 205).

The process of economic development spreads its gains and burdens inequitably among geographic, demographic, and economic groups in a society. There is unevenness in the development both between cities and the countryside and between rural regions. The areas left behind, "bypassed areas," and their populations may not be sharing in the growth of the society (Bonnen 1983), and special programs may be needed to help them.

There have been suggestions that enhancing mobility of resources is the most fundamental way in which a government can influence spatial allocation with the aim of increasing national per capita output. Others maintain, however, that although development of those rural communities which possess positive possibilities is mainly advocated, society has an equal obligation for those who do not have such promising prospects, if inequities which stem automatically from economic growth are to be decreased (Heady 1972).

Economic efficiency objectives are only one aspect of policymaking. They must be placed next to considerations of equity, ethics, environment, aesthetics, culture, and security (Pulver 1988). Thus, there may be a number of 'legitimate reasons' for a 'rural policy.' Rural areas can be competitive as production centers, especially if all costs are considered and, if necessary, proper public compensation for spillovers of benefits in a federal system are provided. The other considerations mentioned above may serve as stimuli to further public investments in rural areas.

5.2. Change from agricultural policy to rural policy

As stated earlier, nonmetro America has transformed itself from a dependence on farming as the major source of income to a dependence on diverse economic sectors. The diversification has increased as the U.S. has lost its international supremacy in agriculture and manufacturing (Carlin 1987). Although these industries are still crucial for many rural counties, a change from the previous one sector-policy - farm policy - to a more comprehensive rural policy is necessary.

Conceptually, 'rural policy' can be defined as a policy to benefit rural people, or rural areas, or both. The difference in these meanings was once quite insignificant. For most of U.S. history, rural policy has meant agricultural or farm policy (Schaller 1978). Farm policy was designed to help farms and farmers, and most rural people lived on farms. Or as Bonnen (1990, p. 7) writes: "The political players at the national level have understood themselves to be improving rural life, when they improved farm welfare." Most public policies have not been focused on rural communities or people but on one industry, usually farming and, at times, agribusiness.

The situation has been changing for some time. Nonfarm people have become more important as the intended beneficiaries of farm policy. Moreover, the well-being of both farm and nonfarm rural people is increasingly influenced by policies other than those traditionally labeled rural (Schaller 1978).

In any event, U.S. and European farm policies have been the main, or only, form of rural policies so far. Europe's rural policy implementation has perhaps been more consistent than that in the U.S., where the complicated nature of rural areas and rural problems and the federal (multi-level) structure of the U.S. governmental system increases the difficulty of creating effective rural policies. But how, then, has U.S. farm policy performed its task as a rural policy?

5.2.1. Farm policy as rural policy

During the 1930s, when many U.S. farm programs were initiated, agriculture and agricultural support programs dominated the well-being of rural America. Today, most nonmetro residents do not depend on agriculture nor on USDA programs as principal sources of employment or income. Many farmers are also less dependent because: (1) major program commodities (dairy, grains, cotton, and tobacco) account for only about one-third of total farm cash receipts, and (2) the relative importance of nonfarm income has increased during the last decade, so that major part of total farmers' income now comes from nonfarm sources (Petrulis 1985).[34]

Nevertheless, more than 500 U.S. nonmetro counties (Hady and Ross 1990) out of almost 2,500 are heavily dependent on agriculture. Communities in these counties are most affected by agricultural policy and its changes. They have specialized human and business assets of only limited use elsewhere in the economy and for many of them the economic fortunes are directly tied to agriculture.

Farm programs have been the predominant federal policy response to problems in rural America. But as rural economies have changed, farm programs have become less relevant to nonmetro economic problems. Moreover, it is argued that agricultural programs actually accelerated changes in the farm structure and the contraction of that sector.[35] Schaller (1978, p. 202) concludes that "gradually, and at times reluctantly, came the discovery that **farm** policies were in fact **commercial farm** policies."

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[34] This is true **on the average**, but one has to remember the extreme heterogeneity of 'farm sector,' ranging from small 'hobby gardens' to large businesses (see section 2.2.1. earlier, p. 10).

[35] See, for example, Cochrane (1979, 1985).

Lovejoy and Ayers (1986) claim that the impacts of agricultural programs are as diverse as the programs themselves:

> "The government's role (excluding educational and research efforts) in development has largely been one of keeping inefficient producers in the sector (while keeping some potentially more efficient producers out), raising costs to consumers in the form of prices and tax dollars, and restricting development of the agricultural sector. However, the agricultural sector has undergone tremendous alterations and has developed in spite of these factors" (Lovejoy and Ayers 1986, p. 167).

Agricultural commodity programs are neither well-targeted to financially-stressed farms nor to low-income farm families. In addition, single-sector policies, such as farm policy, tend to inhibit, rather than encourage, economic flexibility (Reid 1989). In reality, most rural U.S. economies must adjust to changed economic conditions. A single sectoral policy has little chance of aiding or controlling that transition by itself.

The effectiveness of agricultural sector policies in improving rural economic well-being depends upon:

(1) The magnitude of income transfers to farmers, including the distribution of benefits by type and size of farm.

(2) The linkages between the farm sector and the "upstream" and "downstream" sectors serving the farm sector.

(3) The degree of dependence of the local economy on the farm sector and agriculturally linked sectors.

Thus, all of the nonfarm effects do not occur in farm or rural areas. In the U.S., more than half of the linked industry activity is located in metropolitan areas (Harrington 1988).

There are also agricultural policies other than price and income support policies that have had an impact on rural areas and their development. For example, technological advances and extension programs have reduced the drudgery and low

standard of living that once characterized farming. The overall result has been a decrease in the real cost of food to consumers and a decline in the total resource base (land and human) necessary to produce the amount of agricultural commodities the markets can absorb (Harrington 1988).

Even though farm programs may not be contributing much to rural development or rural well-being objectives in increasingly diverse nonmetro areas, radically or abruptly changing them can severely affect some farm dependent rural economies in the U.S. Especially in the Midwest and Northern Plains, where farmers also typically make up a relatively high proportion of the total population, agricultural commodity policies have their greatest potential impact on the well-being of farmers and other rural people and are most viable as a means for rural economic development (Smith and Hines 1988).

On the other hand, current farm commodity price support policies are not well suited to addressing the most severe income problems of the farm population. Economic development that results in more and better jobs for all rural residents is likely to have a much more significant impact on small farmers needing assistance and on low-income farm households than any agricultural policy measure (Smith 1986).[36]

Thus, U.S. farm policies alone do not contribute much to overall rural development, except in some farm-dependent regions, and at times they may even inhibit development. Yet agricultural programs are an essential part or 'subpolicy' in rural policies. Today, however, agrarian interests still dominate the existing institutional power structure and effectively exclude rural community interests (Bonnen 1990).

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[36] According to Smith's (1986) definition, a 'small' farm is one with annual sales less than $20,000, which, as he recognizes, includes both "traditional" small farmers and "hobby"/"residential" farmers.

Schaller (1978) argues that, increasingly, the beneficiaries of farm policies are not rural people, but consumers, and urban and suburban residents. And even in rural areas, many of the beneficiaries of existing policies appear to be landowners not directly involved in farming (Petrulis 1985). Clearly, the traditional rural-urban dichotomy has lost most of its relevance and both farm and nonfarm rural interests would be better served by public policy if they recognized and cooperated with nonrural interests in formulating policy.

Farm programs have undoubtedly helped develop the productivity of farming, both in the U.S. and in other Western countries. But in most nonmetro America, the economic role of farming is now so limited that no set of farm policies will contribute much to developing the overall local economy. To provide better balance among policies for rural areas, much more attention should be given to the issues that concern the 91 percent of the rural work force that is not employed in farming. Also, if farm programs are to be reconsidered, emphasis should also be given to the following issues: values of farms other than as centers of production ('family-size,' landscape, community social well-being); needs of farm households; and environment (ground water, soil protection, use of natural resources, aesthetic qualities) (Reid 1989).

5.2.2. Objectives of rural policy

Agricultural policy alone cannot fulfil the objectives of rural economic development in nonmetro areas that are becoming more and more diversified. But creating a coherent rural policy is not a simple thing to do. The difficulties arise from the elusive nature of rural policy. Traditionally, farm policy has been viewed as a convenient surrogate for rural policy. While farm policy, whatever its limitations, has a reasonably clear form and function, rural policy has no clear dimensions.

Schaller (1978) writes that until the 1960s in the U.S., one rural policy path dominated -- farm policy. Then, according to him, the path has forked to food policy and to rural development policy. The latter was promoted as a benefit to the entire nation:

> "The selling point for rural development was not what new economic and social gains it would offer society so much as the extent to which it could help solve the problems of congestion, crime, and pollution in metropolitan America" (Schaller 1978, p. 206).

However, from the very beginning there has been confusion about rural development policy ends, partly reflecting uncertainty as to what in fact were its desired goals. There has also been disagreement about the 'division of labor' between federal, state, and local government levels. Many nonmetro residents obviously feel that the real issue is not at what level of government rural development efforts should be centered. Rather it is whether rural development is just a nice word for more planning and less freedom; whether it is something that is done **to**, rather than **for,** rural people (Schaller 1978).

The profound changes that have taken place in rural America during the last few decades have significantly broadened the range of national issues in which rural areas have a critical stake. Among them are national growth and development (because of increased vulnerability of nonmetro areas); public infrastructure; program targeting and flexibility; and underdeveloped/bypassed areas.

A consistent rural development policy involves a long-term commitment to stimulate economic growth in rural areas. Before policy decisions are made to determine appropriate responses to rural economic problems, policymakers must decide whether a rural transition policy, a rural development policy, or some combination of the two will guide their responses (Drabenstott et al. 1988). Related to this problem are two

important equity issues: (1) Should rural development policy seek to bring new life to **every** rural community?; and (2) Will the benefits of rural development policy accrue equally to all or mainly to those communities and to those people who are least in need of assistance, i.e. will all have equal access to those benefits? (Schaller 1978).

Deavers (1988) identifies four main elements of rural policy in the U.S.: macro policy, sectoral policy, territorial policy, and human resource policy.

Macro policy decisions are increasingly important to rural communities. The rural economy is now an integral but distinctive part of the national and global economy. Moreover, rural employment is even more sensitive to changes in monetary and fiscal policy than is urban employment, particularly in areas dependent on farming or low technology manufacturing. Thus, the recognition of the unique economic, social, and institutional capabilities of rural areas is essential if they are not to be inadvertently disadvantaged by national policies.

The appropriateness of **sectoral policies** as a rural policy component is questionable. The best-known examples of U.S. sector-specific policies are agricultural programs, and, as stated earlier, these policies are not a solution to today's widespread structural changes nor are they likely to contribute to future rural job creation.

Territorial policy as a part of rural development policy has most often focused on strategies to ameliorate differentials in levels of economic activity, growth, and rates of return between rural and urban 'regions.' Most past federal programs specifically aimed at rural economic development have devoted the majority of their funds to public infrastructure, largely to serve goods-producing firms (Deavers 1988). However, future rural infrastructure needs are more likely to be for facilities that reduce rural disadvantage in access to information and communication.

Infrastructure makes necessary contributions to economic output. The issue, however, is whether additional investments in public infrastructure effectively promote economic development of the nation and more specifically, of individual rural areas (Fox 1988). New infrastructure investments have the potential for enhancing economic development, but the impact on any individual location depends on: (1) the linkage between economic development and infrastructure; (2) the manner in which infrastructure is financed; and (3) the existing economic development of the community.[37]

Most of the burden of the economic adjustments taking place in nonmetro America falls on human resources: displaced industrial workers, farmers, and members of their households. **Human resource policies** that equip people for major changes in occupation, and that rely on broad multi-county, regional, and national labor markets for reemployment opportunities for displaced rural workers, are critical to successful amelioration of current economic stress (Deavers 1988).[38]

Human resource investment programs must become a fundamental component of rural development efforts. Education can influence local development in a number of ways. Education and training programs provide a mechanism for building an adequate supply of labor skills. They can foster long-term economic growth by providing a setting for the development of leadership, business, and innovative skills. Both the availability and quality of public schools as well as access to colleges, contribute to a positive

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[37] Many rural communities face a dual infrastructure problem. On the one hand, economic stress is creating fiscal pressures that make it difficult to maintain infrastructure and public services. On the other hand, many of these same areas lack the sufficient infrastructure to support a successful transition to a new economic base (Drabenstott et al. 1988).

[38] For examples about programs to help displaced farmers, see Mazie and Bluestone (1986).

business climate. Moreover, institutions that operate and administer education and training programs contribute to the overall economic climate of a community (Ross and Rosenfeld 1988).

One characteristic of human resource policies distinguishes it from many other rural economic development policies: human resource development is, for the most part, a long-term strategy. Unfortunately, as Ross and Rosenfeld (1988) point out, rural education and training will continue to lag behind that of most urban areas, if only traditional quantitative measures of quality are used. The challenge is to protect the strengths of rural education while shoring up its weaknesses.

Lichter (1987) argues that the **unemployment** rate seriously underestimates the extent of economic hardship in nonmetro areas. He suggests that formulae for the allocation of federal funds should be re-evaluated, particularly those that measure human resource needs on the basis of the unemployment rate alone. A statistical measure of underemployment is needed, for example.

One element that must be more seriously considered in rural policy programs is **natural resources**. Economic development policies designed to enhance the public good through 'better' use of natural resources could impose hardship on some rural people (Libby 1986). Contamination of rural resources can pose a serious threat to future economic development.

The physical attractions of many rural areas for residential and recreational uses are highly valued by rural and urban citizens alike. These attributes of natural resources in the rural environment are significant economic assets for nonmetro communities - assets that may deteriorate and therefore depreciate in value without protection (Carriker 1989). The main question remains, then, whether the protection is put into

effect on urban or on rural terms. Carriker (1989) mentions three possible areas of policy conflicts: irrigation subsidies, water purity standards, and land management.

The great diversity of nonmetro economies increases the importance of **targeting** the public funds available for rural economic development and effectively **coordinating** programs at the local level. This gives more emphasis on rural institutional capacity building, i.e., community development. Ryan (1988, p. 366) states that "...it is becoming increasingly more obvious that capital is not the only barrier to successful rural economic development initiatives." At a minimum, rural communities need greater access to information and improved capacities to respond to local situations and problems.

There is also criticism of rural development's narrow focus on only employment and income. Redman (1980), for example, argues that economists in particular have tended to over-emphasize traditional economic concepts at the expense of subjective, noneconomic elements, with the often implicit assumption that improvement in the former will automatically result in improvement in the latter.

The ultimate target of rural development might be the improvement of the well-being and self-realization of people. Blakely and Bradshaw (1985) suggest that rural development policy needs to move beyond traditional development strategies of urbanization and modernization to a new set of issues that will assist rural places to develop more diverse, self-sustaining, and indigenous economic and social institutions.

> "The goal for these structural changes should be to create low density, livable communities that can share resources with similar communities, thereby creating a balance among human settlement, industrial development, agriculture and resource production, and urban use of rural environments. To do this requires coordinated national, state, and local policy efforts" (Blakely and Bradshaw 1985, p. 20).

Finally, an important factor in setting rural policy goals are the participants in policy formulation. 'Public opinion' and the images society holds of rural matters have a

profound effect on policy decisionmaking. A coherent policy is urgently needed, to replace inconsistent goals and preference for remedies rather than future-oriented problem solving. Unfortunately, as Bonnen (1990, p. 10) describes: "...Congress does not have any vision with respect to rural society."

In summary, demand for a consistent rural policy in the U.S. is strong and growing. However, rural America is extremely diverse, and broad generalizations mask many significant differences among individual areas. This fact makes it necessary for rural development programs to be tailored to particular types of rural economies and to give more decisionmaking power on the local level. And perhaps changes in attitudes are needed as well:

> "At all levels of government, however, we have been unable to envision and unwilling to design rural policy that includes the reality of decline, preferring instead the myth of universal growth" (Deavers 1988, p. 390).

5.3. Role of government

The recent development in rural areas has augmented the necessity of flexibility and tailoring of rural policies. Local communities are likely to have increasing responsibilities concerning development efforts. The role of the **federal government** is to coordinate national programs and to provide assistance in local endeavors.

In the U.S., the growing diversity of nonmetro areas has made it more difficult to design a national rural policy. Some rural areas are experiencing stress which may justify assistance, while others are not. Some rural areas have a potential for development, but others clearly do not. This situation enhances the role of states in developing and delivering programs tailored to the situation of individual communities, and strongly implies that targeting is important.

Collective action plays an important role in nonmetro development; the private sector alone is unable to solve economic problems facing rural people. This necessitates a close working relationship between the public and private sector (Tweeten and Brinkman 1976). Also, most public attention affects rural areas in one way or another, even though the majority of public policies are not specifically oriented to any particular location of people. A list of these actions might include monetary and fiscal policies; information, employment, and other services; health; transportation; regulation; and research.

Tweeten (1989, pp. 301-304) lists several principles guiding the role of the federal government in rural development and particularly rural services. These principles include the following:

> (1) Although the private sector is central to rural development, the public sector must play a role in the provision of public goods, correcting externalities, and assisting those who cannot provide for their own basic needs.
>
> (2) Public services are most efficiently provided (funded and administered) by the most local unit of government within which the service benefits are realized. An exception is education, where spillovers are substantial, and welfare services.
>
> (3) It is ordinarily appropriate to dispense rural development programs on the basis of equity and efficiency than on the basis of sector or occupation. It is wise, for example, to target transfer payments to individuals and families and not to communities.
>
> (4) A domestic development program ideally utilizes allocation criteria requiring minimal political or administrative discretion and utilizes accurately estimated and unbiased data.
>
> (5) A development program allocating resources on the basis of actual performance is preferred to one allocating on the basis of possible performance.
>
> (6) It is well to maintain the integrity of the tax and expenditure structure by maintaining their separability.

Milkove and Sullivan (1988) conclude that financial assistance to rural businesses is one option available to the federal government to cope with undesirable market

outcomes. Government can, for example, play the role of "lender of last resort." While financial assistance is not the only plausible response to lagging rural economies, it can be considered a viable policy tool for furthering rural policy goals.

According to Blakely and Bradshaw (1985), the principle objective of national rural policy is to provide leadership and to balance resources between rural and urban areas, and between affluent and impoverished areas. With the increased capacity and resources of rural areas, the federal government has responsibility for enhancing, rather than restraining, local action. Also, the federal level should stimulate the development of technologies that will assist rural areas and help them better utilize their indigenous resources.

Finally, U.S. Secretary of Agriculture, Clayton Yeutter emphasizes that the federal government can play a catalytic role in the endeavors that help rural areas to diversify their economies. In addition to agriculture, he sees tourism, high tech firms, and service industries as future possibilities for rural America (Choices, 1990).

In the U.S., **state** level policies will have a growing importance in rural economic development for two reasons: the nation is large in size and rural problems and economies are increasingly heterogenous. Redman and Rowley (1990) grouped states into three categories, based on the 1979-87 real earnings growth. According to that classification they concluded that there are three general categories of states: (1) those that do **not** need a rural policy, since both the rural and urban economies are doing well; (2) those that may need instead a better overall development policy, since both the rural and urban economies are doing poorly; and (3) those that do need a rural policy, because the rural economy is doing much worse than the urban.

Smith (1988) points out that state initiatives holding the most promise are those that recognize the consequences of shifting economic forces. The most promising tactics

support change and transition in local economies and innovative states are developing programs to assist their firms and industries adapt to change. He lists six "sound tactics" for a successful state rural economic strategy: (1) determining competitive advantages and targeting program resources accordingly; (2) targeting infrastructure support to industries that can sustain competitive advantage; (3) providing financing for demonstration, innovation, and transition, but not for ongoing economic activity; (4) providing marketing and business management support to small firms; (5) assuring adequate management of natural resources as an integral component of rural economic development; and (6) supporting alternative agricultural systems that are closely linked to the local economy.

Thus, states can play creative roles in rural development by helping shape the strategies that are available to local areas. They can promote new indigenous local business establishments, provide information and expertise to rural communities, and help in financing, particularly venture capital.

At the **local** level, public action should be directed toward solving specific development problems. An important task of local governments is providing public services and creating a positive 'climate' for development. Public action is most effective when it complements rather than replaces private activities.

As Deavers (1988) concludes: there is a need for cooperation among public institutions at all levels, for effective involvement of the private sector, for marshalling information regarding the economic forces influencing the community and the nation, for insights about the near-term future, and for a mechanism to convert all of this into action programs.

5.4. Summary

To be effective, rural economic development policies must be rationalized at all governmental levels: national, state, and local. There are many well-argued reasons to give rural areas equal possibilities for development and to obtain their share of society's growing welfare. However, the solutions and the 'division of labor' between different levels of government are unique to each country depending on size, degree of development, history and many other factors.

For several decades, farm policy has been seen as practically the only policy mechanism to help rural areas. Although its inadequacy for that purpose has been recognized for much of that time, very little has been done to replace or supplement it with more appropriate policies. Today, commodity programs in the U.S. serve the single-minded purposes of farm commodity lobbies and, with a few exceptions, help very little in preserving the viability of the countryside.

The main responsibility of the federal government is to create a sound macro policy combined with policies that stimulate local growth and compensate for negative spillovers, such as the brain drain from rural communities. Assistance in human resource development is an appropriate long-term process that will benefit the whole society. On the other hand, the effectiveness of sectoral and territorial policies must be carefully examined.

Gallup surveys unquestionably show that more people would live in nonmetro areas if they could make their living there. Also, the population turnaround of the 1970s made it clear that if conditions are favorable, many city residents are ready to move to the countryside. On the basis of these facts, one would expect policymakers to be more interested in developing policies to keep rural areas populated and viable, and to preserve the landscape and productive capacities of the countryside.

In any event, agricultural policies alone are incapable of addressing the diversity of problems faced by rural areas in all Western countries. More consistent rural policies are needed if the society wishes to create lasting improvement in the well-being of its members and prevent its modern rural sector from becoming a drag on the economy and society.

6. SUMMARY AND CONCLUSIONS

The rapid transition in the rural economic base from extractive industries to manufacturing and services has made rural areas more volatile and sensitive to external forces. National decisions and international events have come to have a greater impact on nonmetro economies and on their prospects for the future. Virtually all industrialized countries - and many developing countries as well - are faced with the problem of how and to what extent to preserve the population base and the overall viability of rural areas.

To provide rural people and communities equal opportunities and levels of human welfare or to compensate them for the benefit spillovers from their local development investments calls for governmental intervention. So far, farm programs have been almost the only major policy directed specifically to rural areas but it is increasingly recognized that they are an ineffective way of addressing a majority of rural economic problems. However, many rigidities in the governmental system and misperceptions about the role of farming make it difficult to achieve a fundamental change in rural policies.

This chapter briefly summarizes the factors that have been affecting rural America in the eighties and the impact these changes have on rural policy decisionmaking. Also, some recommendations for future research are offered and the potential lessons from the U.S. experience for other countries are explored.

6.1. Policy implications

In the 1980s, several trends combined to cause economic hardship in nonmetro America. The financial problems of farms received the bulk of public attention. While

crucial in counties highly dependent on farming, this was, in fact, just a part of the tangle of difficulties. The recession in manufacturing, the bust in mining, oil, and timber industries, and the weak performance of the services sector all contributed to the malaise of rural America.

The two most salient features in the development of rural areas in the U.S. during the eighties were the **increasing diversity** of nonmetro counties and the **growing dependence on external forces** influencing rural economy. Both of these characteristics have implications for future rural policies.

It must be emphasized that while the diversification of the economy is an accurate description for rural areas in the aggregate, it cannot be applied to all individual rural areas. In other words, the variance **between** nonmetro counties has escalated, but an individual county is still likely to be specialized in one or two economic activities. As a result, rural policies need to allow sufficient flexibility to adapt them to fit particular conditions.

Distance from urban areas is a crucial development factor for many rural communities. Usually the most difficult adjustment problems are experienced in remote regions whose economy is based on natural resource industries, often farming. These isolated counties face totally different rural development opportunity sets compared to metro adjacent counties and obviously call for different policies for development.

Major external forces that now have greater weight in rural economic development are increased competition in the world market and federal fiscal and monetary policy decisions. These international and national factors played the main role in the rural economy downturn in the eighties and their influence is unlikely to decrease. Other trends that can affect rural areas differently from urban areas include changes in the age structure of the population, fluctuations in energy prices, U.S. and world business

cycles, technological advances and obsolescence, and growing concern over environmental quality (Bender et al. 1985).

While the U.S. has carried out a number of actions called "rural policy," they have not really amounted to a policy. An effective policy requires a clear understanding of the problems it seeks to address and implies a choice among alternative goals and strategies for achieving them. Major controversies involved in formulating a rural policy include whether the policy should focus on people or places; whether it should emphasize the most disadvantaged places or those with a reasonable chance of successful development; and whether it should highlight social equity or economic efficiency (Reid and Long 1988).

Rural problems, however they are formulated, can be addressed by various policy strategies. National economic policies regulate the economy at a general level, and sound macroeconomic policy is the foundation for building a favorable economic structure in rural areas. Directed programs, such as sectoral and regional policies, can be used to contend with the heterogeneity of nonmetro communities. Other important rural development options might include infrastructure development, direct financial aid to businesses, and the development of human capital and institutions. Finally, it is important to recognize programs that are not focused solely on rural areas but have notable effects on them, like social security benefits.

In sector policies, the most urgent changes are needed in commodity programs for agriculture. Greater targeting of farm programs is essential if, for example, society really desires to save mid-sized family farms from extinction. Moreover, pressures for decoupling, i.e., to give direct income support to farmers (without production controls), are increasing; both nationally and internationally. All in all, farm policy concerns have to be balanced with other policies that address rural issues.

Externalities (or spillovers) create a main justification for government intervention, through a rural policy or other federal strategies, in a society. Education, for instance, is provided by public action in part because of externalities in both consumption and production. Net human capital outflow is an example of the spillovers that have chronically plagued disadvantaged rural areas. Rural counties and communities have historically incurred spillouts of schooling benefits through out-migration of young, educated people. Thus, one indisputable objective of a federal rural policy would correct for schooling spillovers by providing equivalent compensation to nonmetro areas.

Other instances justifying public intervention caused by externalities can be found in environmental protection and in social costs of congestion. Tweeten and Brinkman illustrate the market imperfection spillover between rural and urban areas as follows:

> "Firms in large urban centers do not pay the full costs of crime, air pollution, and transportation congestion that attend the agglomeration of jobs and people in densely populated areas. If firms in [rural] areas were allowed to pay the low opportunity cost of labor and if firms in metropolitan areas were taxed for the full social costs of these externalities, the results of the wage and profit studies indicate that decentralization would be speeded" (Tweeten and Brinkman 1976, p. 430).

The negative spillovers associated with rural to urban migration are difficult to compare with the advantages of centralization, simply because of the lack of knowledge. Public spending to encourage people to stay in rural areas might many times be justified if all the externalities could be taken into account. In any case, a vast depopulation of rural areas can be assumed to have great social costs for the whole society.

All in all, development of rural areas is the product of four general sources in societal capacity: technological change, institutional innovation, improvements in human capital, and changes in the availability of biological and physical capital (Bonnen 1987). It seems particularly the case that investments in human resource development, such as

general and vocational education, public assistance, and employment counseling and mobility assistance, are essential to the well-being of rural people.

It is easier to recognize the value of clear goals and appropriate programs in rural policies than it is to achieve them in practice. In the U.S., the complex nature of rural areas and rural problems and the structure of the governmental system increase the difficulty of creating effective rural policies.

The diversity of nonmetro America makes it almost impossible to formulate a single policy that would be entirely appropriate for all rural areas. Any rural policy must therefore be flexible enough to deal with a variety of local circumstances, and the government must have a skeptical attitude towards single sector policies. At the same time, the sensitiveness of local economies, which are often specialized in one or two sectors, must be kept in mind.

The effectiveness of rural programs is also affected by the fundamental characteristics of rural areas. The unique feature of rural areas is spatial. The dispersion of population and firms gives rise to numerous problems in transportation, communication, and delivery of services. Isolation, low population densities, dependence on a small number of firms, lack of professional staff in governments, and the thinness of rural leadership limit the types of programs and strategies that can be effective in rural settings.

Finally, several aspects of the U.S. governmental and political system discourage policies that are internally consistent and targeted to specific goals. These characteristics include the fragmented responsibility in Congress, the intergovernmental division of responsibility, the imbalance in power and public sympathy, and the difficulty of targeting programs (Reid and Long 1988).

In sum, the U.S. is not likely to have a single, clear, and coherent rural policy. However, this does not prevent the effectiveness of implementing programs aimed at diminishing the disadvantages of rural areas. Once decisions have been made, a clear objective determined, and an appropriate approach found, then a careful coordination and integration of different policies - both horizontal and vertical - will help to achieve these goals.

In Europe, the worrying about the social consequences of rural to urban migration seems to be at about the same level as in the U.S. In addition Europeans more often express their concerns about the implications of the depopulation of their rural areas on the environment, on aesthetics and even national defense. Although no Western European country has an explicitly stated rural policy, such as the Rural Development Policy Act of 1980 in the U.S., there remains in Europe a greater willingness of governments to intervene more directly to achieve the specific social goal of keeping rural territories populated (Deavers and Long 1988).

Agricultural policies that are narrowly focused on production subsidies will do little to slow down the adjustments in agriculture that contribute to migration from rural areas to cities. Furthermore, the 'post-agricultural' diversity of rural economies means that no sector-specific policies can cope with the breadth of adjustments facing rural areas in the U.S. and in Europe. Dealing with these adjustments requires a more comprehensive and holistic approach that is able to consider the unique characteristics and disadvantages of rural areas. It is highly unlikely that government policy by itself can reverse major trends. Public policy can facilitate adjustments and cushion the impacts on human welfare. It can also help in coordinating private and public sector activities and policies.

6.2. Research recommendations

The transition from an agrarian to an industrial society has made the rural economy considerably more complicated than before, and this complexity is likely to increase. Some five decades ago, when most modern farm programs had their beginning, it was reasonable to regard the farm economy and rural economy as synonymous. Today, the circumstances are notably different and the need to improve the rural data and research base has grown (Bonnen and Nelson 1981).

As a result of increased diversity and dependence on external forces in rural areas, there is a requirement for a far more detailed and accurate understanding of the way in which agriculture and other economic sectors fit into the rural economy and of the way the rural economy interacts with the remainder of the national and world economies. Without a more comprehensive knowledge about rural areas and their relationships to the rest of the economy, the designing and implementing of effective rural policies becomes more difficult or even impossible.

In the U.S., there are a number of providers of information about rural policy issues. However, no program exists for developing and providing rural policymaking information that attempts to deal thoroughly and in a coordinated manner with all information suppliers and consumers (Long et al. 1987).

Also, there is a need to improve and to integrate better the rural data bases. The factual knowledge about the issues that affect nonmetro areas must be enhanced. New concepts of 'rural' and 'urban' must be developed for data collection and analysis instead of relying on the either-or definitions of 'nonmetro' and 'metro' now in use.

Continuing research must be devoted to the relative effectiveness of alternative public-sector approaches, such as investments in infrastructure, capital subsidies, and other economic development incentives. For example, what is the rate of return to or

the optimal mix of local infrastructure investments? Or what are the effects of capital subsidies on the location and expansion of service-oriented firms?

There is a need to find better and more accurate ways to measure poverty, underemployment, and other dimensions of labor market performance and needs for public human resource development services. Many statistics now available seem to be insensitive to the unique economic conditions of rural areas. Also, more analysis of payoffs from human resource development programs must be conducted.

Finally, agriculture, an important industry in many rural economies, calls for a more detailed knowledge about the farming population today. There must be better ways to identify and classify farmers according to their residence, part-timeness, and attitudes towards farming, for example. More information is also needed about the theoretical and empirical relationships between agricultural development and socioeconomic change in rural areas.

6.3. Lessons for other countries

One rationale for studying the structural change in the U.S. is that it is the country where the rural-urban transition has developed the furthest of any country in which the agricultural sector has significant importance for the economy. In the U.S., farmers constitute less than two percent of the whole population and even in rural areas its importance has diminished on the average: farming accounts for only nine percent of nonmetro employment. Thus, the U.S. is in the late stage of the agrarian transformation and can provide examples of the 'aches and pains' of adjustment in rural areas of a post-industrial society.

It has to be emphasized, though, that the diversity and the hugeness of the country make many circumstances different in rural America compared to most other

countries. Conversely, the variety of problems has helped to create a number of approaches to deal with the problems of rural areas in a modern society.

Clearly, in the U.S., state and local governments have an important function in rural policies. Reasons for the role of the state can be found in the governmental structure and the size of the country. For example, many Western European countries are comparable to two or three combined U.S. states in size. The most important federal role in U.S. rural policy is to create sound macroeconomic policies and, if needed, to cushion the adverse international effects on nonmetro regions.

The pattern of development for rural and urban America can be characterized as balanced growth, at least until this century. The investment in human capital was crucial both to increased agricultural productivity and to the growth of the non-agricultural sector. One conclusion that can be drawn is that social investments in the physical and social infrastructure are essential for development both in urban and in rural areas. However, the appropriate or optimal balance between investment in urban and rural areas in the later stages of development seems much more difficult to define.

Perhaps absolute answers regarding an 'optimal balance' of development investments can never be found, because society is ever changing and each country and even each region can be unique as far as its culture, history, natural surroundings, etc. are concerned. Thus, to give a detailed prescription about 'a balanced shift to industrialization' for any particular country is not feasible. However, that does not prevent other countries from learning from the experience of countries where the transition to an industrial society has already taken place or progressed much further.

Each country faces its own unique opportunity set for development. This calls for different processes in the transition from an agricultural-based economy to an industrial one. The economic growth of rural areas is a complex mixture of economic,

social, psychological, and political factors unique to each country. Moreover, the development of all countries has been, is, or will be a long-term process. However, one should eliminate the 'evolutionary determinism' mentality that depletion of rural areas is an inevitable natural phenomenon - once the human, natural, and institutional resource depletion has occurred it is usually too costly to revitalize! This perhaps is the greatest lesson.

6.3.1. Implications for rural development policy in Finland

One goal of this study, as stated in the preface, is to gather background information about rural issues that would contribute to the continuation of research in Finland. This section briefly describes the Finnish rural policy context and examines the implications of lessons from U.S. experience for Finnish rural policy design.

Rural development is a serious policy concern in Finland. The socio-economic well-being of rural areas and the development of the nation as a whole are inextricably linked, and the importance of maintaining the dynamism and population base of rural areas is widely accepted. Promoting auxiliary secondary jobs in agriculture and other small-scale enterprises are considered to offer the best possibility for preserving the vitality of the countryside. However, difficulties in coordinating rural policy and planning plus Finland's tradition of centralized decisionmaking create problems for rural development.

Structural transformation of agriculture took place somewhat later in Finland than in many other Western European countries. Perhaps it was because of this delay that Finland's transition was especially vigorous and rapid during the 1960s and 1970s. In 1950 agriculture employed about 40 percent of the labor force, but in 1985 this share

had declined to eight percent (Maatalous 2000, 1987). However, the historical experiences of the past few decades best explain this unique change.

As a consequence of World War II, Finland lost approximately 10 percent of its total area to the Soviet Union and had to resettle 400,000 refugees moving out from the Karelian area. Achieving self-sufficiency in agricultural production was the main goal of the government after the war. As a result, yields increased quickly, leading to excess production. This overproduction, combined with growth in other sectors, brought about the rapid transformation.

Finland is a sparsely populated country; more than half of the population is concentrated in southern Finland, inhabiting 16 percent of the country's area. 'Rural' refers to scarcely populated areas and to villages with less than 500 inhabitants. Agricultural policy has traditionally played a major role in rural development, but more recently new rural programs have been initiated, for example the Rural Livelihoods Act of 1987.

The problems of rural areas in Finland are very similar to those in the U.S.: working-age people move out, the elderly population grows, the number of retail stores and public services decreases, and community tax revenues drop. Villages and rural areas close to urban settlements are in the best position. The government is supporting the preservation of basic services, such as stores, schools, post offices, and bus and rail traffic in rural areas.

Preserving the population base of rural areas is a broadly agreed-upon policy objective in Finland. There are many reasons for maintaining a geographically dispersed population: to maintain the agricultural production base, protect the environment and landscape, promote tourism and recreation, and even to ensure national security.

However, the policies affecting rural economies have been narrowly sectoral and better coordination of programs is sorely needed.

Also, the diversity of rural areas is rapidly increasing in Finland, although agriculture is still by far the most significant industry in many communities, especially in remote regions. The need for more flexible rural policies is recognized, but little has been achieved so far.

The main lesson that can be drawn from U.S. experience for Finnish rural policy design is that it is crucial to take steps while there still are people in the countryside. Further depopulation of rural areas can impose severe social costs for the whole society. Moreover, once the rural regions have been depleted of human and institutional resources, revitalizing will be almost impossible.

6.4. Concluding comments

Rural areas are an important contributor to any nation's transformation to an advanced industrial society. Rural policies need to address this role rather than to perpetuate old agricultural-dominated patterns or to duplicate urban strategies. At the same time, the very characteristics that make rural areas attractive and unique can and should be preserved.

National policy must provide a better understanding of the role of rural areas in the transition of the economy. Thus, a clear set of programs must be designed to assist rural areas to mitigate the problems associated with poor or unplanned development. To achieve success, local involvement and participation is absolutely essential as well. The opportunities provided by an advanced industrial society will bypass rural communities that do not: build human capital and institutional capacity; find new ways to utilize

advances in communication and transportation; and preserve the life style opportunities and aesthetics that make rural places 'special.'

The major objective of rural policy is to alleviate the disadvantages of rural areas and to assist rural places to develop more diverse, self-sustaining, and indigenous economic and social institutions. An ultimate goal should be to create a balance among human settlements, industrial development, agriculture and resource production, and urban use of rural environments.

Moreover, it has to be understood that any rural policy is a dynamic process that calls for longer-term objectives whose desirability must be examined frequently. Decisions about future rural policy will be framed by historical and political circumstances, such as previous programs and policies, participants in the policy arena, and major rural issues, past and present.

In summary, factors that are crucial in designing and formulating rural policy in the U.S. or in any particular country include the following: sufficient database on rural problems; clearly defined goals; possibilities for tailoring programs to account for the heterogeneity of rural areas; and adequate flexibility to accommodate local goals and development efforts. For the most part, rural policy has to provide opportunities and incentives to rural people and communities to carry out their own programs for development. Finally, the society should accept the fact that different regions, including different rural regions, can adopt, and have the right to adopt, different types of development.

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