Policy Options for a Changing Rural America

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In 1950, 4 out of every 10 rural people lived on a farm, and almost a third of the Nation's rural workforce was engaged directly in production agriculture. Because agriculture dominated the social and economic well-being of most of the rural population, public policy related to agriculture was a dominant force shaping rural life both on the farm and in rural communities. But today, rural America is vastly different from 50 years ago, and current commodity-based farm policies do not fully address the complexities of rural economies and populations. Farms are larger and more efficient, farm households depend more on off-farm income, and rural communities look for nonfarm sources of economic growth. Today, less than 10 percent of rural people live on a farm and only 14 percent of the rural workforce is employed in farming.

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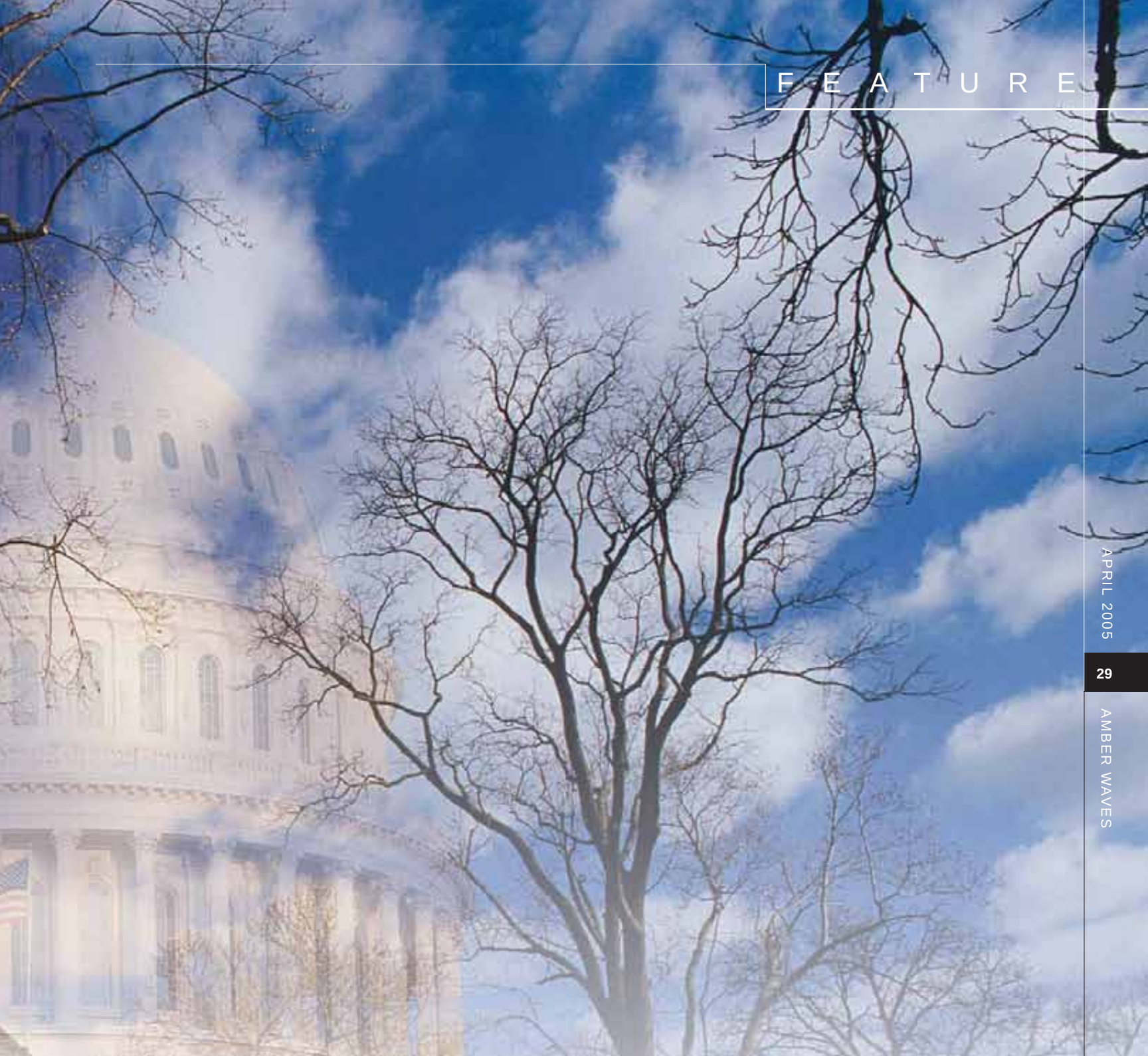


In addition, some rural communities have changed dramatically since 1990 due to increased population from urban areas, shifts in age and ethnic composition, and economic and industrial restructuring. Population changes are creating new needs as new migrants from urban areas revitalize some nonmetropolitan (nonmetro) or rural areas, while long-term population and employment losses have the opposite effect on other rural communities. Increasing competition from abroad and sectoral shifts in employment present new challenges and opportunities in the worldwide economy and raise the question—how can rural communities successfully build on their economic base and other assets to retain and attract population and employment? And, when, where, and under what circumstances will rural development strategies be most successful? The diversity within rural America dictates that strategies tailored to particular types of rural economies may be more effective than a broader "one size fits all" rural policy. Demographic change, the health of the Nation's economy, and industrial restructuring will be major factors affecting rural policy in the 21st century.

Changing Demographics Suggest Different Policy Needs

Overall rural population growth rebounded in the 1990s, increasing by over 10 percent, up from 3-percent growth in the previous decade. Migration continued to fuel rapid population growth in some nonmetro counties, especially in scenic areas and along the metro periphery. However, population growth began to slow at mid-decade, and the number of nonmetro counties that have lost population has climbed from around 600 counties during the 1990s to well over 1,000 since 2000. While population loss affects all regions, it is particularly widespread in the Great Plains, a region that depends heavily on farming (see box, "The 2004 ERS County Typology"). Many of these counties also lost population in the 1980s (see "Population Loss Counties Lack Natural Amenities and Metro Proximity" on page 8). Maintaining the population base, improving off-farm job opportunities, and providing public services continue to be long-term challenges for many traditionally farming areas.

Hispanics are the fastest growing racial/ethnic group in rural America.

LifeSTOCK Photos

The 2004 ERS County Typology

ERS has recently developed county typologies to measure broad patterns of economic and social diversity for developing public policies and programs. The 2004 County Typology classifies all U.S. counties according to seven overlapping categories of policy-relevant themes and six non-overlapping categories of economic dependence.

Policy types:

Housing stress (537 total, 302 nonmetro) counties are those where 30 percent or more of households had one or more of these housing conditions in 2000: lacked complete plumbing, lacked complete kitchen, paid 30 percent or more of income for owner costs or rent, or had more than 1 person per room.

Low-education (622 total, 499 nonmetro) counties are those where 25 percent or more of residents age 25 to 64 had neither a high school diploma nor a GED (General Educational Development) diploma in 2000.

Low-employment (460 total, 396 nonmetro) counties are those where less than 65 percent of residents age 21 to 64 were employed in 2000.

Persistent poverty (386 total, 340 nonmetro) counties are those where 20 percent or more of residents were poor as measured by each of the last four censuses (1970, 1980, 1990, and 2000).

Population loss (601 total, 532 nonmetro) counties are those where the number of residents declined both between the 1980 and 1990 censuses and between the 1990 and 2000 censuses.

Nonmetro recreation (334 designated nonmetro in either 1993 or 2003, 34 designated metro in 2003) counties were classified using a combination of factors, including share of employment or share of earnings in recreation-related industries in 1999, share of seasonal or occasional use housing units in 2000, and per capita receipts from motels and hotels in 1997.

Retirement destination (440 total, 277 nonmetro) counties are those where the number of residents age 60 and older grew by 15 percent or more between 1990 and 2000 due to inmigration.

Economic types:

Farming-dependent (440 total, 403 nonmetro) counties are those with either 15 percent or more of average annual labor and proprietors' earnings derived from farming during 1998-2000 or 15 percent or more of residents employed in farm occupations in 2000.

Mining-dependent (128 total, 113 nonmetro) counties are those with 15 percent or more of average annual labor and proprietors' earnings derived from mining during 1998-2000.

Manufacturing-dependent (905 total, 585 nonmetro) counties are those with 25 percent or more of average annual labor and proprietors' earnings derived from manufacturing during 1998-2000.

Federal/State Government-dependent (381 total, 222 nonmetro) counties are those with 15 percent or more of average annual labor and proprietors' earnings derived from Federal and State Government during 1998-2000.

Services-dependent (340 total, 114 nonmetro) counties are those with 45 percent or more of average annual labor and proprietors' earnings derived from services (SIC categories of retail trade; finance, insurance, and real estate; and services) during 1998-2000.

Nonspecialized (948 total, 615 nonmetro) counties are those that did not meet the dependence threshold for any one of the above industries.

The ERS County Typology has been featured in several *Amber Waves* articles:

"One in Five Rural Counties Depends on Farming," by Linda Ghelfi and David McGranahan, *Amber Waves*, Vol. 2, Issue 3, June 2004.

"Persistent Poverty Is More Pervasive in Nonmetro Counties," by Dean Jolliffe, *Amber Waves*, Vol. 2, Issue 4, September 2004.

"One in Four Nonmetro Households Are Housing Stressed," by James Mikesell, *Amber Waves*, Vol. 2, Issue 5, November 2004.

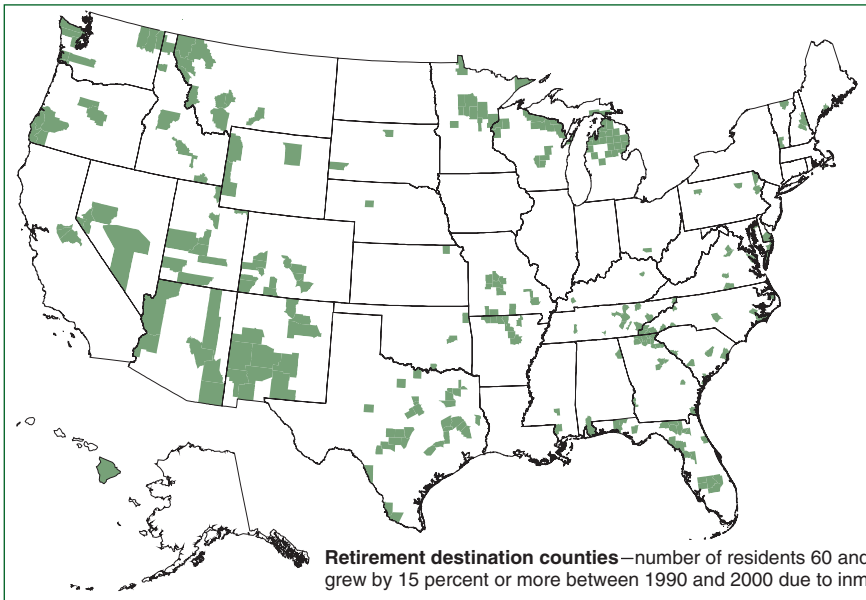
"Job Losses Higher in Manufacturing Counties," by Tim Wojan, *Amber Waves*, Vol. 3, Issue 1, February 2005.

"Population Loss Counties Lack Natural Amenities and Metro Proximity," by John Cromartie, *Amber Waves*, Vol. 3, Issue 2, April 2005.

Growing numbers of Hispanics are settling in rural America, accounting for over 25 percent of nonmetro population growth during the 1990s. With a younger population and higher fertility, Hispanics are now the fastest growing racial/ethnic group in rural America. And, almost half of all rural Hispanics live outside of the traditional settlement States in the Southwest. In many places, new Hispanic settlement patterns are contributing to the revitalization of small towns; in others, the influx of residents is straining housing supplies and other community resources. In addition, the younger age, lower education, and large family size of Hispanic households suggest increased demands for social services, including prenatal care, child care, and education programs.

The older population grew rapidly in many rural places in the 1990s, due largely to retirement and recreation opportunities. Nonmetro retirement-destination counties, where the number of residents age 60 and older grew by 15 percent or more between 1990 and 2000 due to inmigration, were located predominantly in the West, and in major retirement centers throughout the South, including Texas and Florida. In the rural agricultural areas of the Great Plains and Corn Belt, as well as in rural parts of the lower Mississippi Delta, the growth of the older population slowed and in many places stopped altogether. This pattern reflects the small size of the cohort now reaching age 65, a group that was depleted in many rural areas by low birth rates in the 1930s, an exodus to cities in the 1940s, and an exit from farming in the 1950s. These dual patterns of growth and decline suggest the need for different strategies. Areas with rapidly increasing older populations must be prepared to provide essential services, resources, and programs for the elderly. Areas with declining elderly populations must consider economies of scale when ensuring that necessary services are available and accessible.

Nonmetro retirement destination counties, 2000



Retirement destination counties—number of residents 60 and older grew by 15 percent or more between 1990 and 2000 due to inmigration.

Prepared by ERS using data from the U.S. Census Bureau.

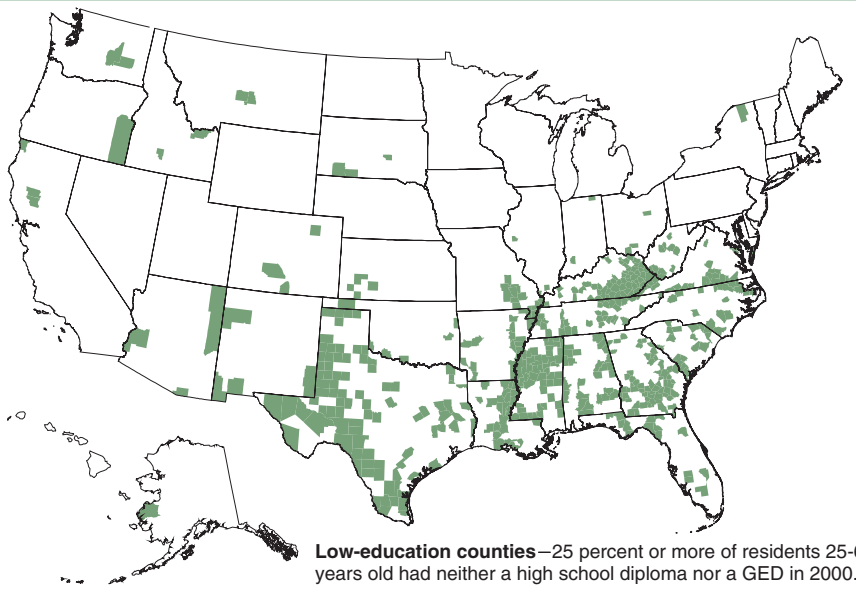
The educational attainment of rural Americans is higher than ever before, continuing a long upward trend. In 2000, nearly one in six rural adults had a 4-year college degree, about twice the share of a generation ago. But the substantial growth in the college-educated population was not evenly distributed across rural areas, and low education levels still challenge much of rural America. Low-education counties, with 25 percent or more of residents age 25 to 64 who had not completed high school, are concentrated in the South and Southwest. Low-wage resource-based and manufacturing economies in many of these counties limit the kind of high-skill job growth that attracts a higher educated labor force. Strategies for raising educational levels and the quality of that education are essential to improving the economies of many rural communities.

The Rural and National Economies Are Linked

Rural areas as a whole shared in the Nation's economic prosperity during the 1990s. The nonmetro unemployment rate fell to its lowest level (4.4 percent in 2000) in 20 years, and rural poverty rates reached an all-time low (13.4 percent in 2000). But in late summer 2000, the manufacturing industry went into a downturn, and by March 2001, the longest U.S. economic expansion on record had ended. Unemployment and poverty rates subsequently rose in both rural and urban areas, while employment and earnings grew sluggishly.

The U.S. economic recovery began in November 2001, and by the beginning of 2004 had become broad-based, with most domestic sectors exhibiting moderate to strong growth. Metro employment grew by 0.5 percent from 2002 to 2003, while nonmetro employment grew by 0.6 percent. But economic recovery has been uneven across rural America, with most gains concentrated in the high population growth areas of the South and the West. Areas of the Northwest continue to

Nonmetro low-education counties, 2000



Low-education counties—25 percent or more of residents 25-64 years old had neither a high school diploma nor a GED in 2000.

Prepared by ERS using data from the U.S. Census Bureau.

wrestle with declining employment in timber and other natural resource industries. The employment picture for the Great Plains and Midwest was mixed, with some rural areas buoyed by employment gains of at least 2 percent and others mired in long-term declines in population and employment.

Industrial Restructuring Creates New Opportunities and Challenges

The rural economy has shifted from a dependence on farm-based jobs to a dependence on nonfarm-based jobs. Today, four out of five rural counties are dominated by nonfarm activities, including manufacturing, services, mining, and government operations. In many of these counties, however, agriculture is still a major source of income. For farming-dependent rural counties—located primarily in the Great Plains and accounting for 10 percent of farm operators and 21 percent of total farm cash receipts in 2000—the challenge is not a weak agricultural economy. Rather, these counties have not been equally prosperous as others because nonfarm sector development is limited by remoteness from major urban markets and low population densities.

Other nonmetro economies depend more on industries, such as manufacturing, for their economic base. Almost 30 percent of all nonmetro counties were dependent on manufacturing, having derived 25 percent or more of average earnings from manufacturing during 1998-2000. Manufacturing has traditionally located in rural areas to take advantage of lower labor and land costs. Since the late 1980s, some manufacturers, competing on the basis of low-cost production, shifted their production overseas. Other manufacturers took advantage of new technologies and management practices and began to compete on the basis of product quality. This shift resulted in a need for more highly skilled labor, and manufacturing moved to rural areas with better schools and fewer high school dropouts. Areas with low high school completion rates, located predominantly in the South, now face greater difficulties in attracting and retaining manufacturing employers. The manufacturing counties of the rural Great Plains offer a more educated labor force, and these areas have been most attractive to employers. But, the loss of 2.6 million manufacturing jobs nationwide since 2000 suggests that manufacturing counties as a whole may be especially hard pressed to find alternative sources of economic growth.

Rural Policy Options for the Future

The goals of economic/community development programs and policies in rural areas vary widely, as do the resources and the opportunities and challenges communities face. Some areas will focus on strategies to stimulate economic and community growth to help address problems associated with population and employment decline. Other areas will seek to improve wages and living standards by changing the nature of employment, or by enhancing infrastructure and public services. Low-density settlement patterns often make it more costly for communities and businesses to provide critical public services. In contrast, other rural areas, particularly those rich in natural amenities, face growing pains borne out of economic transformation and rapid population increases. Community leaders in these areas are struggling to provide new roads, schools, and other community services and may actually want to stem growth in order to limit rural sprawl.

One point is clear—commodity-based farm policies as currently structured do not fully address the complexity of issues facing rural economies and populations. For example, the high level of farm payments in the late 1990s did little to eliminate the long-term outmigration from farming areas. ERS research shows that counties highly dependent on farm payments had some of the highest rates of population loss, even during periods when most other rural areas were gaining population.

Rural policy for the future will need to encompass a broader array of issues, and these different rural issues will require different mixes of solutions. Strategies to generate new employment and income opportunities, develop local human resources, and build and expand critical infrastructure hold the most promise for enhancing the economic opportunities and well-being of rural America.

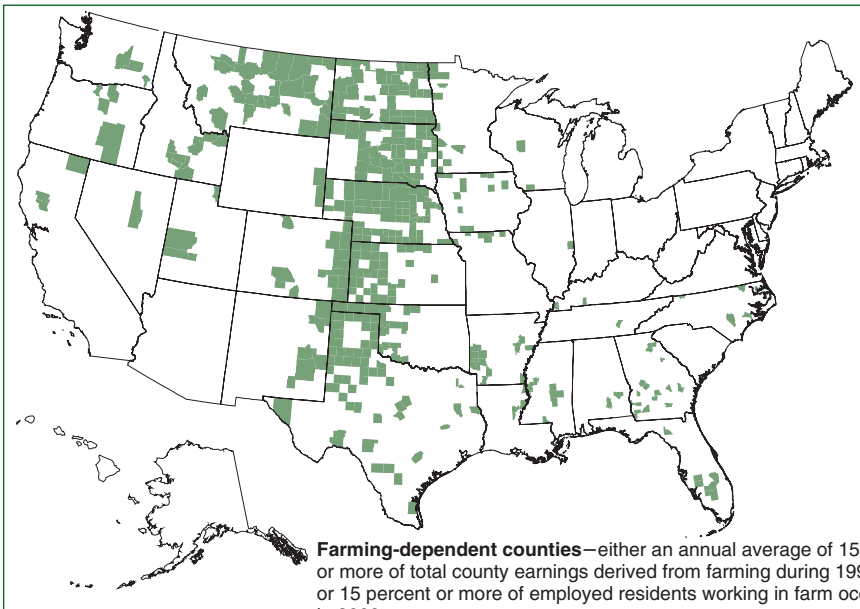
New Economic Engines: Prosperity for many rural communities will depend on innovative income-generating strategies that attract people and jobs. Faced with continuing loss of farm jobs, some rural communities have sought to offset shrinking employment by adding value to farm products. Focusing on the role of farms as a source of raw materials for food and fiber products, these communities seek to add value to agricultural commodities by luring food processing plants to rural areas, developing new consumer or industrial uses for agricultural products, or bypassing conventional wholesale-retail systems to sell food products directly to consumers. These strategies may prove successful for some communities, but ERS research finds that value-added strategies in general are not particularly promising as engines for rural job growth. Food retail and marketing are the largest and fastest growing value-added sectors, but these businesses usually choose to locate in urban areas for more efficient access to consumers, nonagricultural suppliers, and distribution networks. Food manufacturing and other value-added activities account for a relatively small share of rural employment, and the amount of job growth from these value-added strategies has had little impact on the general rural labor market.

Many rural communities are looking at other innovative ways of attracting and retaining high-paying industries and employment to rural areas. The traditional way of attracting firms to a region by offering tax reductions may no longer be sufficient. New approaches, such as providing training and technical assistance by local educational institutions to clusters of similar firms, may be more successful than tax-based incentives because they help firms to adapt innovative production techniques. Training and business assistance programs can help new entrepreneurs in some rural areas enhance their business acumen and improve business communication skills. Networks of small businesses can help build a more effective business infrastructure by coordinating marketing services, warehousing, business resources, and computer technology.

Capitalizing on new uses of the Nation's natural resource base may be essential to ensuring the economic well-being of rural America. This resource base can provide such uses as water filtration, carbon sequestration, and nontraditional energy sources, including methane utilization. Some rural areas may be well suited for the development of renewable energy as well as the production of more traditional fossil-fuel energy. Natural amenities, though, will be the trump card for some rural areas. Rural counties with varied topography, relatively large lakes or coastal areas, warm and sunny winters, and temperate summers have tended to reap huge benefits from tourism and recreation, one of the fastest growing rural industries. Recent ERS research finds that tourism and recreational development in rural areas leads to increases in local employment, income, and wage levels, and improvements in social conditions, such as poverty, education, and health. These strategies have drawbacks, however, particularly in the form of higher housing costs in these nonmetro recreation counties.

Human Resource Development: The wage gap between urban and rural workers reflects a rural workforce with less education and training than urban workers. In 2003, average weekly earnings for nonmetro workers ($555) were about 79 percent of the metro average ($699). In 2000, only 16 percent of rural adults age 25 and older had completed college, half

Nonmetro farming-dependent counties, 1998-2000



Farming-dependent counties—either an annual average of 15 percent or more of total county earnings derived from farming during 1998-2000 or 15 percent or more of employed residents working in farm occupations in 2000.

Prepared by ERS using data from the U.S. Census Bureau.

the percentage of urban adults. Moreover, the rural-urban gap in college completion has widened since 1990. Today, employers are increasingly attracted to rural areas offering concentrations of well-educated and skilled workers. A labor force with low educational levels poses challenges for many rural counties seeking economic development. Rural areas with poorly funded public schools, few good universities and community colleges, very low educational attainment, and high levels of economic distress may find it hard to compete in the new economy. Recent ERS-sponsored research documents the direct link between improved labor force quality and economic development outcomes, finding that increases in the number of adults with some college education resulted in higher per capita income and employment growth rates, although less so in nonmetro than metro counties. Efforts to reduce high school dropout rates, increase high school graduation rates, enhance student preparation for college, and increase college attendance are all critical to improving local labor quality.

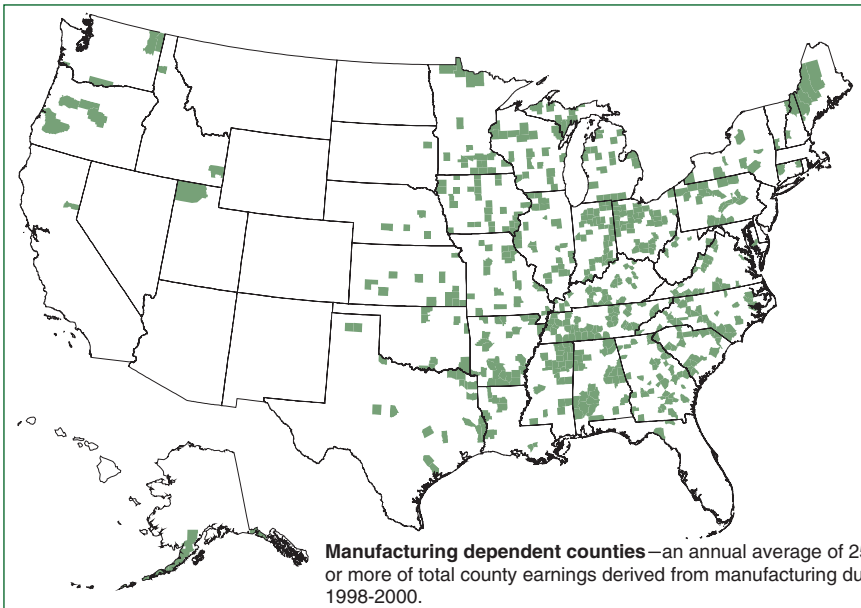
Rural human capital can also be improved by strengthening the quality of classroom instruction. Technical assistance could ensure that best-practice models of distance learning are available to remote schools, where the benefits from such technologies are greatest. Instructional quality could be improved by promoting teacher recruitment and retention efforts in remote and poor rural areas. Efforts to facilitate school-to-work transitions of youth are particularly important in isolated and distressed rural communities. The benefits of these strategies will be greatest in rural communities, where existing workforce development programs (especially the Workforce Investment Act) face special challenges due to high rates of high school dropouts or limited demand for youth labor.

Infrastructure and Public Services: Telecommunications, electricity, water and waste disposal systems, and transportation infrastructures (such as highways and airports) are essential for community well-being and economic development. But many rural communities are financially restrained because of a limited tax base, high costs associated with "dis-economies" of size, and difficulties adjusting to population growth or decline. Investments in needed infrastructure have increased in recent years, but high costs and deregulation pose challenges.

Investment in rural infrastructure not only enhances the well-being of community residents, but also facilitates the expansion of existing businesses and the development of new ones. Recent ERS research assessed the economic impacts of 87 water and sewer projects funded by the Economic Development Administration and found that these projects in general created or saved jobs, spurred private-sector investment, attracted government funds, and enlarged the property tax base. But the average urban water/sewer facility, which costs only about one-third more than the average rural facility, generated two to three times the economic impacts of rural facilities. The rural-urban difference in economic benefits likely stems from the generally more abundant infrastructure of urban areas—easy access to highways, railroads, and airports, primary and secondary suppliers, input and output markets, community facilities and amenities, and skilled labor.

The Federal Government has helped rural communities finance public infrastructure, but many communities still lack infrastructure like advanced telecommunications and air transportation services. Information and communication technology—abetted by financial and technical assistance—can help smaller communities enjoy the same benefits as cities, such as higher standards of health care and virtually unlimited educational opportunities. Federal financial assistance for deploying broadband access and incentives for State, private, and public partner-

Nonmetro manufacturing-dependent counties, 1998-2000



Manufacturing dependent counties—an annual average of 25 percent or more of total county earnings derived from manufacturing during 1998-2000.

Prepared by ERS using data from the U.S. Census Bureau.

Rural counties with lakes, mountains, and good climates attract businesses related to tourism and recreation.

ships to develop fiber optic or wireless capabilities are among the options for rural areas seeking to invest in a telecommunication infrastructure.

Because many rural problems occur regionwide, some policies need to address broader geographic implications. Agriculture, as a major source of income and employment, is concentrated in the northern Great Plains and western Corn Belt. Rural manufacturing is disproportionately located in the Midwest and Southeast. Mining and other extractive activities are conducted west of the Mississippi River and in Appalachia. All of these industries have experienced very slow job growth or job loss in recent decades. Regional or multicommunity cooperative efforts, such as the Delta Regional Authority and the Northern Great Plains Regional Authority, may offer rural areas a better chance of success in responding to industrywide declines or problems associated with persistent poverty, population loss, or educational disadvantage. Job generation and human resource development will require close coordination to ensure that the skills possessed by workers will be appropriate for the new, largely service-based and information-dependent industries, and that the jobs will be available in the regional economy.

Unfortunately, little empirical analysis is available on what strategies will be most effective in which areas under what circumstances. There is no one formula for success. Policy analysts will do well to look to the areas that have achieved prosperity to help develop successful prototypes for areas that may be unprepared to meet the challenges of the future.

This article is drawn from . . .

Food and Agricultural Policy: Taking Stock for the New Century, USDA, September 2001, available at: www.usda.gov/news/pubs/farmpolicy01/fpindex.htm

Rural America at a Glance, 2004, edited by Karen Hamrick, AIB-793, USDA/ERS, September 2004, available at: www.ers.usda.gov/publications/aib793/

The Role of Education: Promoting the Economic and Social Vitality of Rural America, edited by Lionel Beaulieu and Robert Gibbs, Southern Rural Development Center and USDA/ERS, January 2005, available at: www.srdc.msstate.edu/publications/ruraleducation.pdf

The ERS Briefing Room on Farm Policy, Farm Households, and the Rural Economy: www.ers.usda.gov/briefing/adjustments/ and the County Typology Codes chapter of the ERS Briefing Room on Measuring Rurality: www.ers.usda.gov/briefing/rurality/typology/