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Many continue to be left behind.

Funding New Ideas For Old Objectives:

The Current Case for Rural Development Programs

by Louis E. Swanson and Jerry R. Skees

Once again, adverse social conditions in rural America have captured the attention of academicians, government policymakers, and the nonrural public. Renewed awareness that a significant portion of America's rural population continues to be left behind and the accompanying undesirable consequences are generating calls for a major rural development initiative.

Unfortunately, this most recent ground-swell for rural development is likely to suffer a fate similar to earlier initiatives, which produced academic and political rhetoric engendering considerable legislative activity with little or no funding.

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Locating new revenues for rural development is highly improbable given the present federal fiscal crisis and the sluggish economy. However, we could address a new rural agenda by transferring some of the $26 billion now going for commodity programs to a rural development program.

Such a redistribution of funds would emphasize educational reform and federally assisted, but locally directed, economic development.

Capitalizing on this opportunity requires a recognition that: (1) for most of rural America, the farm program is not a surrogate rural development program; (2) there are inequities in the distribution of direct Commodity Credit Corporation (CCC) program benefits such that the largest farms gain; and (3) since World War II, rural development programs have met with limited success—due to both an inadequacy of funding and a narrow focus on corporate entrepreneurship.

This proposal simultaneously promotes rural development while addressing problems of mid-sized farms. The goal of assisting mid-sized farms has been and continues to be an inherent dimension of agricultural legislation since the New Deal. We assume this is an accepted goal.

The proposal would require a restructuring of the Food Security Act of 1985, whereby commodity funds are targeted to medium-sized farms and the savings are transferred to rural development.

Consequently, the USDA mission would be altered to make rural development a co-equal with traditional agricultural interests. Among potential benefits is an enhancement of the political legitimacy of the USDA at a time when it is increasingly perceived as narrowly representing the special interests of agribusinesses and larger-than-family farms rather than those of the consumer, the family farm, and of the rural population.

The Case Against the Status-Quo

Agricultural policy is in disarray. Political rhetoric, notwithstanding, record government expenditures on commodity programs could not and have not prevented farm foreclosures or the deterioration of rural communities in the 1980s. Incremental changes in commodity programs have not worked.

It has long been argued that commodity programs aided rural people. When a majority of the rural population lived on farms, as late as the mid 1950s, this may have been the case. However, as rural employment has shifted to the non-farm economy, this traditional linkage between farm programs and rural well-being has diminished.

In addition, commodity programs have also helped fewer farmers in recent decades. Since James Bonnen's work of the 1960s, questions of equity and efficiency as a consequence of these programs are well documented. Moreover, the expanding federal fiscal crisis has attracted considerable public attention to the failure of farm programs to maintain a viable commercial family farm sector. Paradoxically, spending billions of scarce dollars has likely had the unintended consequence of facilitating the historical trend toward larger and fewer farms.

The Case for Rural Development

Rural issues are national issues. More than one in four Americans live in a rural area. Approximately 90 percent of the nation's food, timber, natural resources, and recreational opportunities either come from or are located in rural America.

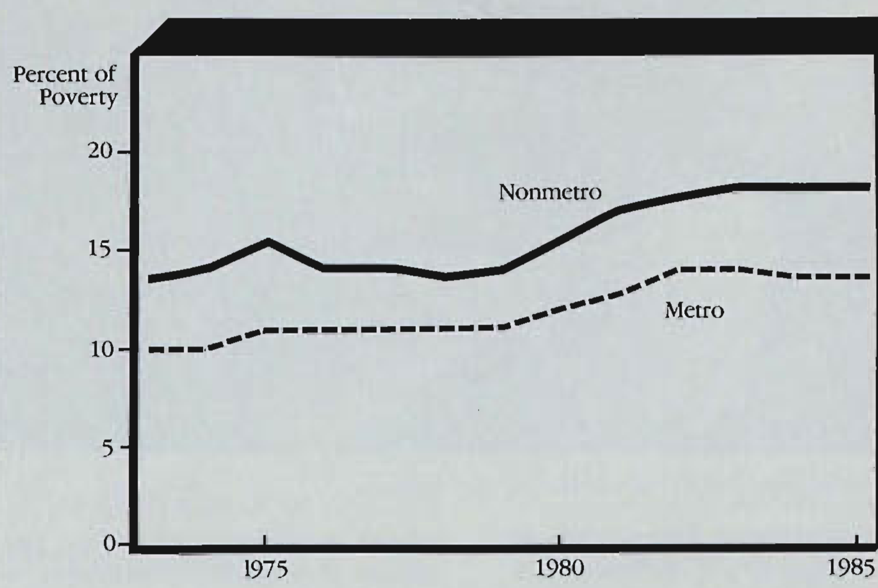
The rapid expansion of the U.S. economy following World War II precluded a major rural development effort. Even at the margins of the national economy, most rural areas benefited. In fact, Henry, Drabenstott, and Gibson found that between 1965 and 1973 per capita income differences between metro and nonmetro areas narrowed. However, by 1973 there were indications that this expansion had subsided and that pre-war intense international competition had renewed.

In 1984 rural employment was primarily dependent upon manufacturing (39.5 percent), service industries (16.5 percent), and government (13 percent). Only about 15 percent of the rural economy depended upon primary industries, including farming. Furthermore, according to USDA data, only a third of the employment in the nonmetro economy was related to agriculture.

Commodity programs could not and have not prevented farm foreclosures or the deterioration of rural communities in the 1980s.

Once again, economic and social well-being in rural areas is losing ground. Evidence of this deterioration includes an increased disparity between the per capita income of nonmetro and metro counties (Henry, Drabenstott, Gibson, 1986). Moreover, poverty among nonmetro residents has accelerated. Since 1978 nonmetro poverty increased from 13.5 percent to 18.3 percent, an increase of 35 percent. Between 1978 and 1983, the number of nonmetro poor swelled by 43 percent. Poverty among the farm population rose from 12.2 percent in 1978 to 20.3 percent in 1985. This expansion in poverty occurred during a period of exploding CCC outlays.

Percent of Poverty Is Higher In Nonmetro America



Federal farm programs, then, have become a questionable means for maintaining farm income, much less non-farm income. Most of what constitutes the "family-farm" sector (gross farm sales of less than $250,000) is dependent upon off-farm income—that is, upon a viable nonfarm economy. It may well be that the best way to ensure the persistence of family farms is the development of a viable rural nonfarm economy.

Other evidence of a declining rural social fabric includes the alarming rate of rural bank failures, marginal employment opportunities, and substandard health services. Perhaps most symptomatic are the problems confronting rural education systems. For example, in the rural South in 1980, one half of the adult population completed high school. The policy challenge of this current crisis is becoming comparable to the Great Depression.

Transfer Proposal With Continued Support for Medium-Sized Farms

A case for targeting program benefits has been made by several authors in a previous CHOICES article (First Quarter 1987). It is our proposal that farms with sales of $10,000 to $250,000 (47 percent of the 2.3 million U.S. farms) be targeted. Farms with less than $10,000 in sales (49 percent of the farms) primarily consist of rural residents with off-farm income sources who benefit little from price and income supports. In addition, if operators of these smallest farms have no off-farm income, they are eligible for other government assistance programs. Farms with sales of greater than $250,000 would receive no direct government commodity payments.

Any proposal to target farm program benefits must address multiple objectives of price and income support programs. The following three basic objectives are assumed to be important for policymakers: (1) assistance primarily to family type farms; (2) assistance to farms with debt problems; and (3) supply management for the farming sector.

First, examination of program benefits shows that inequities exist. Presently, farms with sales of $10,000 to $250,000 receive the lion's share of direct program benefits (roughly 70 percent). Farms with sales of $250,000 or more, accounting for only 4 percent of all farms, receive about 28 percent of these benefits.

Second, the suggested target group of farms also make up the largest percent of farms with debt problems. Over 76 percent of all farms with debt-to-asset ratios of over 40 percent have sales of $10,000 to $250,000. Farms with sales of $250,000 or more should be able to service debt more easily than the targeted farms. Thus, this targeting proposal should allow continued income support for farms with the most debt problems.

Third, the focus is on targeting direct government payments and not on

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the price support provisions of commodity programs. It is essential to provide incentives for acreage reduction programs to farms with sales of greater than $250,000. Although such farms would not be eligible for deficiency payments, eligibility for price supports through the nonrecourse loan program would encourage some participation in acreage reduction when market prices may be below loan levels.

Given that there were $13 billion in direct government payments in 1986 and assuming that the distribution of payments was similar to the 1985 proportions, this targeting proposal would redistribute roughly $4 billion dollars annually to rural development. Additionally, the current high level of support has helped move net farm income to record levels. Further funding for rural development could be freed by lowering the level of income support across the board.

Priorities for A Rural Development Program

A rural development program should encompass a minimum of three priority areas: (1) education, (2) employment, and (3) community infrastructure.

Education: It is widely agreed that most rural education systems must be substantially upgraded. A well-educated workforce is more likely to adapt to changing technical requirements and to sustain high-wage industrial and service firms that operate in highly competitive markets.

Society will benefit from a rural education system that helps people develop the abilities necessary to meet the skill demands of an advanced industrial economy. However, the persistence of marginal and inadequate rural educational systems will waste productive human resources while creating political, social, and economic burdens for both the local and larger society. Schertz argues in the forthcoming conference report, "Crisis in the Rural South" that a wider Federal role in education is justified because of: (1) the mobile character of the labor force, (2) the costs of underutilized human resources (both in terms of foregone productivity and Federal transfer payments), and (3) the inability of most rural communities to effectively respond to this need due to inadequate local funds.

A major rural educational effort must be considered as a permanent infrastructure investment and fiscal outlay. The focus should be upon upgrading teachers' facilities and pay; new standards of acceptable student and teacher performance; upgrading vocational schools; retraining programs for displaced workers and farmers; and a full-scale assault on functional illiteracy. However, the return to investment in education generally is long-term. Short-term improvements in social well-being necessitate a focus on regional employment opportunities.

Employment: Rural economic development poses a severe challenge for both national policymakers and local societies. Most rural firms are either satellites for larger metropolitan-based companies or struggling household-based operations. Often, the types of firms attracted to rural areas pay low wages, demand considerable local tax concessions, employ from a larger area than the target community, and have a record of being footloose when adequate profits are absent.

Chamber of Commerce bids to attract new or expand existing industries have been the traditional community response for achieving employment goals. Such strategies are often dependent upon a community or state providing significant tax concessions and infrastructural benefits. Given the limited number of new industrial opportunities, such bidding has led to intense competition between communities and states with limited resources. This competition has ratcheted both the cost and risk incurred without a corresponding increase in employment opportunities. Even when successful, communities are often left without assurances that the company will employ local residents or stay in the community during periods of economic contraction.

If the U.S. is in a period of prolonged economic contraction, as evidenced by the erosion of foreign markets, loss of unskilled and semi-skilled manufacturing jobs to low-wage countries, and an enormous trade deficit, then strategies such as tax incentives and building industrial parks will not create enough new jobs. Alternative approaches to industrial development would be community and employee entrepreneurship.

Community and employee-owned firms may offer distinct opportunities for rural areas. For example, while such community and employee-ownership firms must make a profit, management decisions are made on the assumption of staying in the community and in protecting local jobs, rather than trying to maximize profits in order to maintain high enough dividends to satisfy nonlocal investors. Similar decision-making patterns have been observed for household-based production firms such as family farms and cottage industries.

Profits from community-owned firms could be channeled into local government, including the school system, thus relieving a portion of the local tax burden. Moreover, community investment in some lower-skilled industries that are not highly profitable would nonetheless lead to employment of people who might otherwise be unemployed.

Creating jobs will not come without adequate management skills for new firm types and leadership from community residents. This represents an opportunity for the Cooperative Extension Service to develop a new clientele within rural areas among nonfarm residents. Training programs will aid in developing indigenous management skills and leadership abilities.

Community Infrastructure: The benefits of investment in community infrastructure are historically prominent in the varied successes of rural New Deal programs such as the rural electrification initiative. Economic and social development must be perceived as a continuous process of maintaining existing infrastructures coupled with new initiatives that anticipate emerging changes in the rural, national, and international economy. It is no longer valid to assume that programs of 50 years ago can be tinkered with to produce the types of infrastructures needed to develop viable rural economies.

For example, a viable community health system is needed to maintain the productivity of the local workforce and the welfare of its citizens. Rural communities without a viable local service infrastructure will be unable to fully meet the needs of their citizens and local businesses.

However, there are existing programs that address many infrastructure needs. They will continue to be important. Given the existing programs, the proposed reallocation of commodity program funds should not be directed toward rural infrastructure.

Rural Development Administration

With the existing capital resource scarcity and underdeveloped human resources, rural America cannot be expected to develop its varied economies without financial and administrative assistance from the federal and state governments. We propose a Rural Development Administration within USDA that consists of multi-state regional rural development agencies that are coordinated with state governments.

Such agencies would give priority to projects that: (l) involve broad-based local accountability and participation; (2) stimulate educational reform; (3) provide local jobs; (4) are coordinated with other local initiatives such as community infrastructure investment; and (5) can eventually pay off low-interest loans. In order for the Rural Development Administration to be effective, it must give considerable autonomy to its regional offices.

These agencies would not be responsible for "saving" all rural communities. Instead, the states within a particular region must arrive at a mutually agreed-upon development strategy which includes a clear set of priorities that are consistent with Congressional goals. Such a requirement is designed to reduce internal competition. It is reasoned that such agencies would reduce excessive community competition and police potential corruption.

In addition to the proposed rural Development Administration and subsumed regional agencies, Congress will have to develop legislation that will protect the fledging industries from unfair competition. Such legislation should also protect local societies from arbitrary decisions by existing firms that might exit without much consideration for the local consequences.

A redistribution of funds would emphasize educational reform and federally assisted, but locally directed, economic development.

Real Financial Commitment

Rural America faces considerable challenges in improving the social and economic well-being of its citizens. These challenges should be met by a cooperative effort on the part of the federal government and rural communities. The federal government will provide the professional and financial resources while the rural communities will be responsible for initiating and maintaining the development projects.

Rural development policies of the recent past have suffered from too much rhetoric and not enough funding. Future rural development policies that do not include a substantive financial contribution by the Federal Government may be good political posturing but will fail to achieve the degree of development now necessary. This proposal suggests that up to $4 billion can be transferred from farm commodity programs to rural development, while at the same time targeting medium-sized farms for Federal assistance.

Compared to previous efforts, $4 billion is a significant improvement. During the first 4 years of the Office of Economic Opportunity (1965-68), less than $4 billion in total was spent; a disproportionate share of this went to urban areas. In 1987, $6.96 billion was allocated to Federal programs providing financial assistance to rural nonfarm business; over half was direct or guaranteed loans.

Still, we recognize that $4 billion will not address the majority of rural America's problems.

We do not assume that this proposal will ensure rural development, but the proposal recognizes that such development will not occur "naturally." The desired results will occur only if there is greater cooperation and accountability among all levels of government.

At the local level, participation in this type of program would require continuous and broad-based input by its citizens. Rural communities will be asked to draw on their tradition of "community" decision-making and sense of equity in developing local educational and economic initiatives that meet the criteria for Federal assistance. Unless a new partnership is forged, rural areas will likely continue to be reactive rather than proactive in determining local social and economic well-being.

USDA Credibility

It is our belief that the elevation of rural development to a co-equal with commodity programs will enhance the credibility of USDA by expanding the clientele. However, continued service to primarily commercial farms will eventually lead to the political delegitimization of USDA and related institutions such as the Land-Grant system.

We need to look to the origins of that system to recall the purposes of equitable service to all rural people. Advocating redistribution of Federal funds from the largest commercial farms to under- and unemployed rural residents is very much consistent with the original mission of the Land Grant system.

Obviously, such a proposal is laden with political uncertainties, and it is naive to believe that transfers of Federal dollars can be this simple. But the present crisis facing most rural people and the USDA requires new policy alternatives that acknowledge both the accomplishments and failures of the past. And clearly, one of the biggest failures has been inadequate funding. We hope that this proposal along with others will ignite a renewed interest in a national rural development program. C