LAGGING GROWTH AND HIGH POVERTY

Do We Care?

by Kenneth L. Deavers

The 1980s was a difficult period for American farmers. High real interest rates, a high-valued dollar, shrinking exports, and falling farmland values pushed many farmers to the brink of financial failure. At the peak of the financial stress, ten percent of all farm businesses were in the category USDA's Economic Research Service defines as most financially vulnerable. These farms had both a high debt-to-asset ratio and negative cash flow. As best we can tell by piecing together various bits of information some 200 to 300 thousand farmers left farming for financial reasons between 1980 and 1988. Federal financial support to farmers increased dramatically in order to assist the sector through this serious adjustment.

The 1980s were a time of economic stress for the rest of the rural economy as well. During the two recessions between 1980 and 1982 the nonmetro manufacturing sector lost 550 thousand jobs. And the sharp break in energy prices that came slightly later in the decade caused a drop in employment of 110 thousand in that sector by 1983. While there has been a modest recovery in the rural economy since 1982, employment has grown at only two-thirds of the U.S. rate.

➢ The federal response to the current problems of rural communities and rural poverty has been extremely modest in comparison to federal assistance to farmers. From 1980 to 1988, federal assistance for rural development totaled only $24 billion. Most of this assistance was in the form of grants and loans to public authorities, not direct cash payments to individuals or firms that were experiencing stress. In contrast, income transfers to farmers (direct cash payments) from 1980 to 1988 totaled more than $75 billion, while the overall cost of farmprograms exceeded $115 billion. It seems that our nationalcommitment to rural development has been weakening just as the future of the rural economy has become more problematic. The record suggests that the nation does not care much about the lagging performance of rural America, or its rural poor.

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Performance in the 1980s

A brief period of superior economic performance by rural America ended in 1979. As the national economy experienced two recessions between 1980 and 1982, with real GNP declining by one percent and employment in U.S. manufacturing industries falling by about two million, rural economic expansion ended.

Measured by employment change, the poor performance of the rural economy in comparison with the metro economy during this decade is striking. As shown in the Table, during the recession period metro growth continued at a slow rate, but nonmetro areas actually lost employment. The recovery which began in 1982 has seen the gap in employment performance between metro and nonmetro labor markets widen. Only in the Northeast Region have rural economies slightly outperformed metro economies in terms of job creation.

Throughout this decade, the rural unemployment rate has exceeded the metro rate, as Figure 1 shows. More important is

Figure 1. Nonmetro (Rural) Unemployment Rate Continues To Be Higher Than Metro

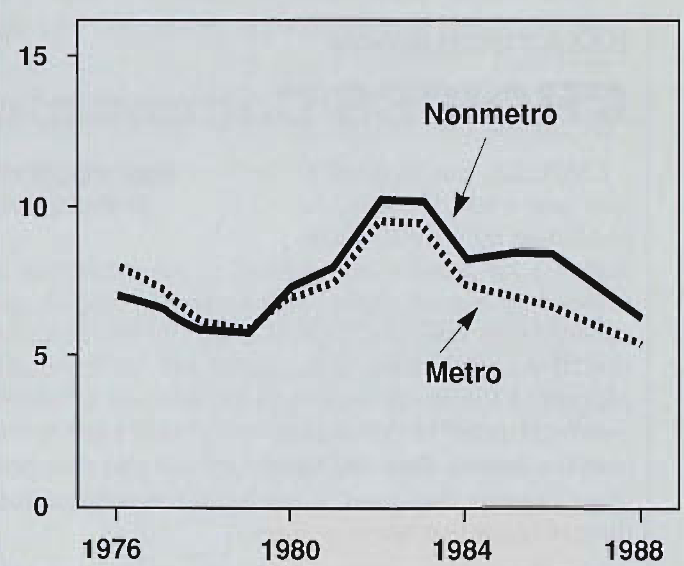
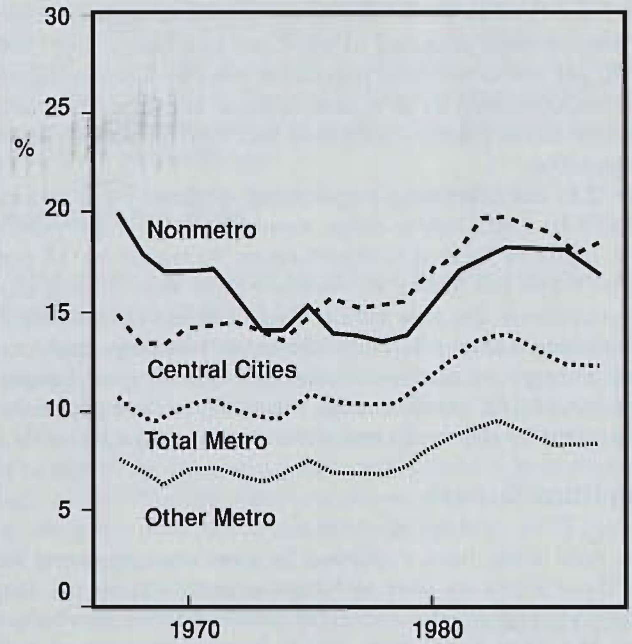


Figure 2. Poverty Rates Are Highest in Rural America and Central Cities



Note: The 1984 data points are averages of 1983 and 1985.
Source: U.S. Census Bureau, Current Population Survey.

what has happened to the ratio of rural to urban unemployment rates. We began the decade with the rural unemployment rate only seven percent higher than the urban. By 1986 the rural rate was 40 percent higher, and in 1988 it remained 17 percent higher. This worsening relative performance in rural labor market conditions has occurred even though rates of growth in the rural labor force have fallen dramatically during the recovery.

Stagnation in rural economic growth has led to a resumption of rural outmigration. The pace was slow in the early years of the 1980s. Between 1980 and 1984 the total outmovement was only about 30,000. But in the past few years the annual outmovement has been nearly 500,000. That rate is substantially above the annual average for the decades of the 50s and 60s. Of all the indicators of rural adjustment, outmigration is the most politically salient. Concern about population losses, has generated considerable interest in reexamining the Federal role in rural development. Only problems among farmers generate more rhetoric about the need for Federal action in rural areas.

Rural Poverty

The recessions of the early 1980s pushed both urban and rural poverty rates up. Since 1983 the metro poverty rate has trended down, and in 1987 it was 12.5 percent. The nonmetro poverty rate, in contrast, has been very difficult to reduce, and in 1987 it was still nearly 17 percent. We do not know whether it is principally the low wages paid by rural jobs, the part-time nature of many of the jobs, the relatively low educational and skill levels among much of the rural work force, or other factors that account for the difficulty of reducing the rural poverty rate during the recent economic expansion. Whatever the causes, there is a sharp contrast with the patterns of the late 1960s and early 1970s. (Figure 2)

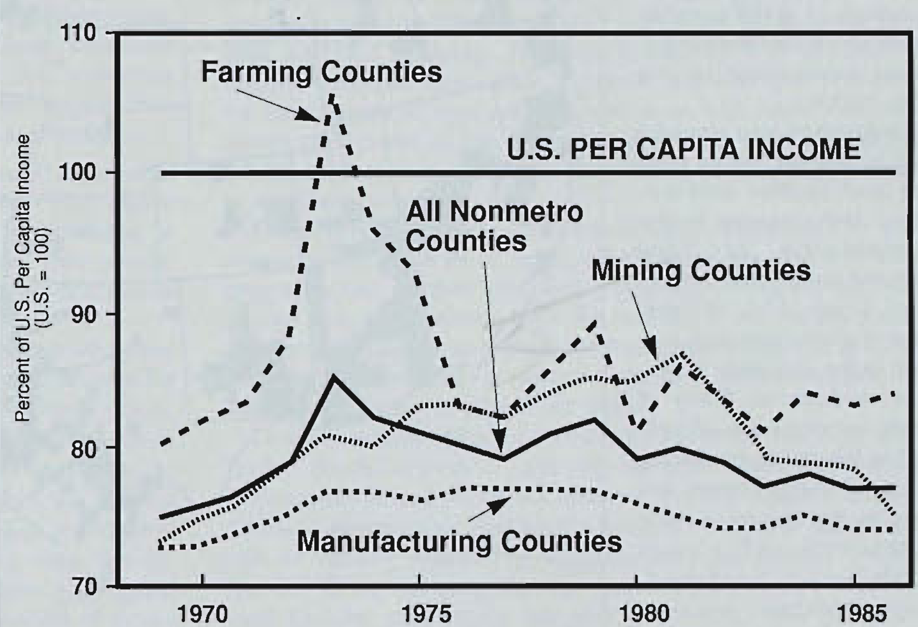
The record suggests that the nation does not care much about the lagging performance of rural America.

An understanding of the spatial and sectoral distribution of poverty, and the characteristics of the rural poor, are crucial to understanding the likely impact of broad national economic development trends and specific development policies on the disadvantaged.

Nonmetro poverty is heavily concentrated in the South. In 1987, 54 percent of the rural poor lived in the South, where the nonmetro poverty rate was over 21 percent. It is these very high nonmetro poverty rates in the South that raise the overall national rural rate to nearly the level of central cities. All seven states with poverty rates above 20 percent in 1980 (the latest year for which state data are available), and the eight states which had at least 300,000 poor rural people were in the South.

Farm poverty is now a relatively small share of total rural poverty and few farming dependent counties are among the nation's poorest. In fact, in terms of average per capita income, the farming dependent counties have been above the average of all rural counties for the past 20 years. (Figure 3) This situation

Figure 3. Per Capita Income in Farming Counties Is Above Incomes in Other Rural Counties



reflects the relatively high levels of income among farmers, partly as a result of large government income transfers to the sector.

Nearly one-half of the three million rural poor who did not work, or worked only part of the year, are ill, disabled, or retired. There is little reason to believe that rural economic development or job creation programs will affect the poverty status of these people. And public support for the changes in Social Security and Supplemental Security Income programs needed to eliminate poverty among these groups has been lacking, although the cost of such changes would be less than recent direct income transfers to farmers.

Changing Rural Comparative Advantage

Natural resource-based industries once had a major part to play in the overall economy. As late as 1940, the combination of farming, forestry, fishing, and mining made up 12 percent of GNP, and employed over 21 percent of the work force. As long as technology and changes in the composition of final demand did not dictate otherwise, the economic role of rural places and large numbers of rural people was relatively secure. But in the past 40 years both of these factors changed dramatically.

The nonmetro poverty rate has been very difficult to reduce.

After World War II, mechanization of farming proceeded at a rapid pace. Between 1945 and 1980 the number of farms declined by 3.5 million, the farm population shrank to less than ten percent of the rural population, and millions of rural people moved away to take jobs in the cities' expanding factories and service businesses. A major economic rationale for large numbers of rural residents was disappearing, and along with it the economic viability of many rural towns. In the Great Plains and Corn Belt the legacy of this change is hundreds of small communities which had their maximum population in the early 1900s.

Technology also played a role in the decline of mining and timber employment, but changes in the composition of final demand were more important. Since 1950, 80 percent of all the new jobs created in the U.S. were in services industries. Many of these services are closely tied to the goods-producing sector of the economy, but they do not require a large component of "rural goods"—food, wood products, minerals, etc.—to produce their services. Very little of the value added in these industries depends on natural resource-based production. Thus, the strong growth of services in the economy portends a continuing decline in the comparative advantage of rural places.

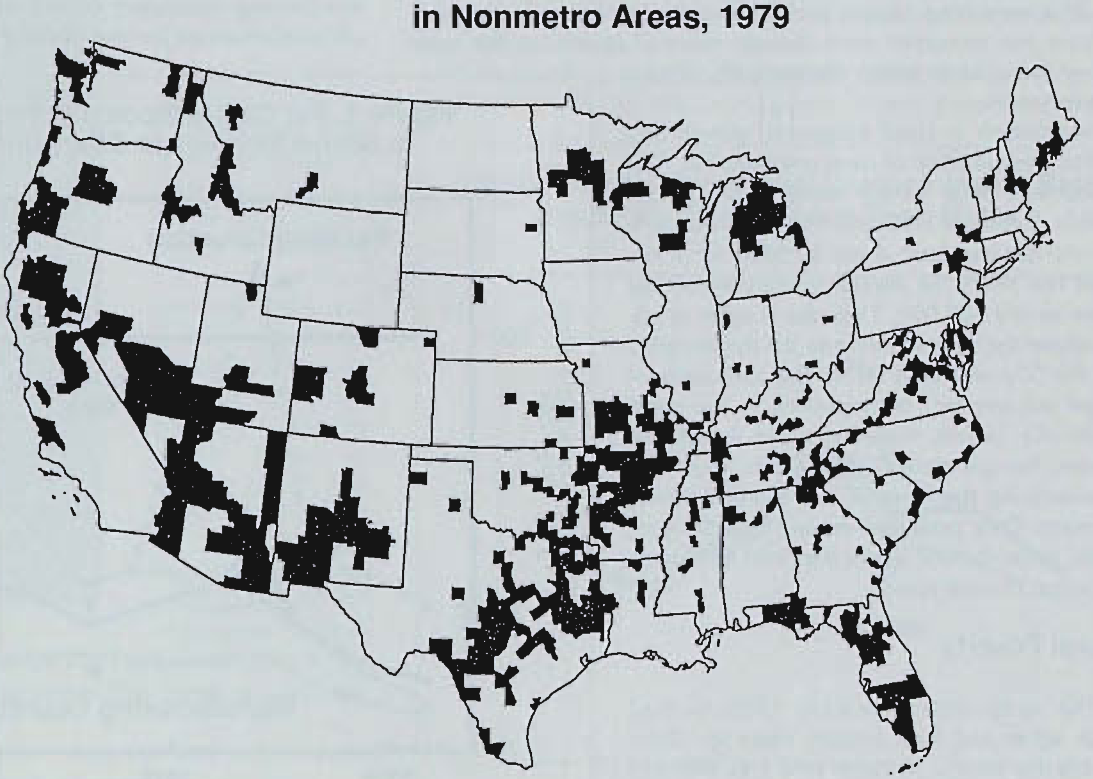
Despite these underlying weaknesses in competitiveness, rural areas experienced a substantial expansion in goods-producing industry employment during the 1960s and early 1970s. Their share of U.S. manufacturing employment increased from 22 to 24 percent from 1960 to 1980. Most of the growth in rural manufacturing employment occurred in the East and South. By 1980, nearly 40 percent of the rural population lived in counties dependent on manufacturing as an economic base. In contrast, all natural resource-based counties contained less than 20 percent of the rural population.

While U.S. manufacturing employment declined by 6 percent from 1979 to 1985, white collar manufacturing employment, which is primarily located in metro areas, increased by 10 percent. The major job losses in manufacturing were among blue collar occupations. Because almost three-quarters of rural manufacturing jobs are blue collar, this adjustment has been disproportionately among rural workers. Furthermore, the longrun competitive position of U.S. manufacturing, especially routine production activities of the kind often located in rural areas, is questionable.

Strong Rural Growth

Some rural areas have continued to grow strongly during the 1980s. These areas are ones with high amenity values, i.e., they are attractive to growing numbers of mobile retirees moving out of cities and other rural areas, and to owner/managers of footloose industries with a preference for a rural location. They also have other assets—lakes, mountains, shorelines, etc.—that make them desirable as residences and for recreation. Since 1983, 85

Retirement-Destination Counties in Nonmetro Areas, 1979



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percent of the increase in rural population has occurred in these 500 counties. It appears that these rural areas have unique "resources" that urban and rural citizens want.

Farm poverty is now a relatively small share of total rural poverty.

Nonmetro counties adjacent to metro areas have also grown rapidly during this decade. In fact, adjacency was one of the most significant factors in the growth of nonmetro areas throughout the 1960s, 1970s, and the 1980s. Between 1979 and 1987 adjacent county employment grew substantially faster than in remote rural areas. These adjacent nonmetro areas are becoming residential and employment satellites of extended metro areas. It is unclear how the gains from development will be distributed.

Federal Policy Role

If the nation cares, there are at least four Federal roles in facilitating the development of rural areas.

• **Appropriate Macro Policy.** The employment impacts of monetary and fiscal policy vary across regions, depending on the industrial composition of the regions. These differences are particularly pronounced in the Northeast and South, and appear to be related to the relatively greater importance of manufacturing in these areas. Thus, the relatively slower growth of the U.S. economy since the peak of the last business cycle in 1979 than in the two previous business cycles covering the 1970s is a partial explanation for the relatively poor performance of rural economies in the 1980s.

No set of sector-specific or community-specific rural development policies will be able to overcome slow growth of aggregate demand in the U.S. and worldwide, or to insulate rural communities from the effects of major changes in monetary and fiscal policies. Rural areas have a significant stake in stable macro policies that achieve the highest possible rates of overall economic growth consistent with reasonable price stability. Such policies may reduce the pace of adjustment required in many rural communities, although they will not eliminate structural change. They also increase the opportunities for resources released from rural agriculture, natural resource, and manufacturing industries to be productively reemployed in new activities.

Federal programs to improve the human capital endowments of rural youth and the rural work force are the only sure way to overcome chronic underinvestment in rural human resources.

• **Redressing Market Failure.** Current rural economic adjustments appear to result largely from real competitive disadvantages, not from failures of capital or information markets, or from generally inadequate rural infrastructure. But this general conclusion should not obscure the need for a careful analysis of exceptions.

Externalities, mismatches between who benefits and who pays for certain activities, are often used as an economic rationale for public policy intervention. For Federal rural development policy, the strongest case for the existence of externalities can be made for education and training programs. We have every reason to believe that many rural people, some of them from the poorest states and states that spend the least to educate their young people, will spend most of their working lives in cities, often in a different state. As a result, many rural communities undergoing structural change will be unable to capture the benefits of higher spending on improved basic education or occupational and skill training and retraining, because the graduates of these programs will often leave the community to find better labor market and entrepreneurial opportunities. States may face similar problems in capturing the benefits of human resource investments. Thus, Federal programs to improve the human capital endowments of rural youth and the rural work force are the only sure way to overcome chronic underinvestment in rural human resources. Such programs could also have a major impact on overall economic performance of the Nation, not just on successful rural development.

• **Encouraging Multi-local Cooperation.** It is unrealistic for national rural policy to have as an objective the widespread substitution of diversified rural economies to replace the specialized economies that now exist. Although some rural economies will be successfully transformed from their current declining specialization to another with a brighter future, most natural resource and agriculture counties will not make that transition. Because decline is endemic in some regions, regional rather than local strategies and policies are more likely to succeed. Thinking of several adjacent communities as dispersed "neighborhoods", each with a specialized role to play in the economic development of the region, might make it possible to achieve some urban-like agglomeration or scale economies, thus enhancing the range of feasible development opportunities.

Federal policies to facilitate such cooperation may well be a prerequisite to its happening. Without Federal encouragement, local competition seems much more likely to be the outcome.

• **Providing Information and Analysis.** The Federal Government has a comparative advantage in providing information and conducting analyses of broad national and rural economic change that help shape policy.

Many advocates of a more ambitious Federal role in rural development believe that something important would be lost if only by moving to cities could *all* rural people obtain an acceptable standard of living. Thus, rural development contains an implicit territorial imperative. It implies increasing opportunities for rural people to improve their economic and social well-being *where they prefer to live.* Given the decline in rural comparative advantage that has occurred in the past 40 years, that is not easily accomplished.

There have been numerous Federal efforts in the past to overcome serious regional or territorial disadvantage. Many of these programs had as their principal justification assuring that rural people were not excluded from the benefits of our society's rising standard of living, even though the investments required to assure this were not feasible for private firms, and whether or not they were cost-effective in a "market" sense.

These programs reflected a political consensus that there was a "public goods" aspect to rural development. Given the relatively slow growth in real per capita incomes in the U.S. since the early 1970s, it seems likely that such a political consensus will be difficult to achieve again. The message may be, despite political rhetoric to the contrary, that the nation does not care that most rural citizens, particularly the poor, are treated less generously than farmers.