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PLACE VERSUS PEOPLE IN RURAL DEVELOPMENT POLICY

by Jim Hite

➤ The Commission on Rural America, established by President Bush, is charged with recommending a new rural development policy. In assessing the problems and needs of rural America, the Commission has talked with many people across the country including professionals working for local and state governments and regional planning councils. Many of these professionals automatically associate community development policy with grants. Consequently, much of the Commission's input is related to grants and subsidies. The mind-set is understandable. But it is time to recognize that a grants policy leads to substantial inefficiencies, and that it is time to shift the focus of rural development policy from places to people.

The case for government grants to spur economic development in rural America is hard to ignore. Rural areas, being at or near the extensive margin of commercial activities, have thin property tax bases. Moreover, they do not have the retail sales necessary to produce substantial yields from a sales tax. Although there are exceptions, rural areas generally do not have much public money for investments in infrastructure and education.

Further, rural birth rates are traditionally high, and costs to provide many public services on a small scale basis are high. Consequently, many rural areas may not be able to make the public investments needed to compete successfully unless they receive transfers in the form of grants or subsidies.

Yet grants and subsidies have the potential to cause side effects. One of the most common side effects occurs when grants or subsidies induce rural governments to undertake projects in which total costs (but not the locally incurred costs) far exceed all plausible benefits. Grants and subsidies can also cause the delivery of public services to be organized inefficiently. For example, FmHA's limitation on the size of communities it can assist with grants and loans leads to the creation of water systems that are too small to be efficient.

There is also the possibility that grants and subsidies for physical infrastructure may interfere with adjustments in the real estate market that are essential to make some rural communities attractive places for economic activities. Communities with erod-

ing economic bases generally have falling real estate prices. While those falling prices are painful for those who own real property, they are part of an adjustment process by which costs in the community are reduced. As those costs go down, the community begins to become attractive for new economic activities around which a new economic base develops. If asset values do not fall, some communities have little hope of attracting economic activities which can efficiently employ the labor and other resources of the communities. But when investment in infrastructure is only a necessary, but not a sufficient, condition for future growth, grants and subsidies for such infrastructure that create euphoria in the local real estate market only increase problems of economic adjustment.

Using Grants Effectively

In principle, a rural development policy that makes selective use of grants and subsidies has some appeal. Used in conjunction with a sound strategic planning process in each rural community, grants and subsidies can be targeted to those communities where outside money is required to address specific strategic problems. But is such an approach practical?

Probably not. Successfully implementing such a policy requires being able to diagnose with reasonable accuracy the ills that afflict particular communities and to prescribe appropriate remedies. It also requires being able to recognize which communities have a chance at economic recovery. While it may be possible to identify generically the kinds of communities that are unlikely to make it and those that have a fighting chance, it is not possible to make prognoses about individual communities.

Consequently, any rural development policy that uses grants and subsidies to help finance site-specific physical infrastructure in rural areas will mean that we are throwing money willy-nilly at rural problems. Some of the money will do good, some will do no harm, and some—perhaps more than is acknowledged—will exacerbate the problems of rural communities by delaying the revaluing of assets.

People Rather Than Places

Instead, the focus of rural development needs to shift from places to people. A people-oriented approach eliminates the need to identify which rural communities can find new life if specific investments were made in physical infrastructure. We know with reasonable certainty that rural people will benefit from investments in human capital. The same thin tax bases that hamper rural communities in making investments in water and sewer systems also hamper investments in public education in rural areas.

If federal funds now used to subsidize physical infrastructure were shifted to subsidize rural schools, it would be almost certain that this investment would make a significant difference. Communities whose schools benefit from such grants and subsidies still might die, but the children, who as a consequence have enriched educations, would be more likely to find a way to succeed in a rapidly changing, highly competitive world. Some, of course, may join the age-old stream of rural to urban migrants, and therefore not necessarily directly contribute to the betterment of rural America. However, with better education, they are more likely to be assets to the places where they eventually settle and less likely to be burdens on those communities.

The mechanisms for implementing such a human capital strat-

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egy in rural development are already present in most states. Half of the states already have in place some type of school finance equalization program to transfer resources from affluent metropolitan areas to poor rural areas. The drift of recent court decisions in some of the remaining states suggests that all states will soon be required to establish such programs. At no net cost to the Federal budget it would be possible to implement a useful and efficient (if less than comprehensive) rural development policy simply by redirecting federal monies. FmHA, REA, and other program funds which now subsidize rural physical infrastructure can be redirected to states for school financing equalization programs.

Problems and Prospects

The prospects for a shift to a human capital strategy are not good. Few deny that investment in physical infrastructure is a necessary, if not always sufficient, requirement for economic growth in rural communities. Yet even if the sufficiency conditions are not met, there are important parts of the body politic in every rural community that stand to realize short-term benefits from investments in physical infrastructure.

When grants and subsidies help finance construction projects, new payrolls are created, at least for the duration of the project, and local merchants enjoy a burst of increased sales. Construction contractors like grants and subsidies for physical infrastructure because it means business for them. The stimulus that the

grant or subsidy gives the local real estate market provides an opportunity for holders of real property to unload their holdings at prices above the long-run equilibrium. Writing and shepherding grant applications provides jobs for planners and the development bureaucracy. Local politicians can usually get points with the electorate for delivering a grant.

Farmers Home, the Rural Electrification Administration, and other divisions of USDA with substantial grassroots constituencies are not likely to take kindly any suggestion that rural development policy should be refocused. Shifting a substantial part of their funds to subsidizing rural schools could mean that the leadership in rural development policy passes from USDA to the U.S. Department of Education. The Congressional committees with jurisdiction over rural development might also be affected.

Admittedly, there are powerful political constituencies for a rural development policy centered on grants and subsidies for physical infrastructure. Powerful interest groups benefit from this kind of policy. It appears highly unlikely that rural development policy can be refocused toward people rather than places. It is likely that the only rural development policy that is politically feasible is apt to be wasteful and counterproductive.

We return then to the question: must rural development policy be about grants and subsidies? Sadly, the answer probably is yes. However, the inefficiencies associated with this policy should cause everyone to consider seriously an alternative—investment in people and an end to placing grants and subsidies in the wrong places for the wrong uses.

Symposium Announcement

"Competitiveness In International Food Markets"

*Sponsored by the International
Agricultural Trade Research Consortium*

August 7-8, 1992 (preceding the AAEA meeting in Baltimore, MD)
Lowes Hotel • Annapolis, Maryland

The negotiation of free trade areas, the completion of the EC Internal Market, and a successful completion of the GATT negotiations on agriculture, mean that food and agricultural sectors must become internationally competitive. Firms, farm organizations, and governments are seeking to identify firm actions, sector strategies and public policies that will increase competitiveness. This conference draws together experts from North America, Europe, and Oceania to define and evaluate the concepts that underlie national and sector competitiveness. Case studies apply these concepts to several countries and draw implications for food policies. This conference then turns to the question of the effect of foreign direct investment, non-price factors, and firm strategy, on competitiveness. An international panel draws implications for the research agenda of universities and public research agencies.

Proposed agenda to include:

National and Sector Concepts and Case Studies. The concepts of efficiency and productivity growth, of the new international economics, and of competitive advantage are evaluated and a synthesis of these concepts for international food trade is developed. Case studies of the United States, New Zealand, Canada, and Denmark provide evidence of the use of these concepts and of the implications for public policy.

Foreign Direct Investment. The role of foreign direct investment in the location of production, and hence of trade flows is developed and applied to the food sector.

Firm Strategy. The importance of non-price factors in competitiveness is developed and applied to the food sector.

Implications for Research.

For information contact: Laura Bipes, Admin. Dir., University of Minnesota, Dept of Ag & Applied Economics, 1994 Buford Ave - Rm. 231g COB, St. Paul, MN 55108. Phone: (612) 625 1757. FAX: (612) 625 6245

Research Opportunities On The Economic, Environmental, and Social Effects Of Moving Towards A More Sustainable Agriculture

Be a part of USDA and EPA's research program. Right now, a "Request For Proposals" is out under the "Agriculture In Concert With The Environment" program. It asks for proposed research projects that will estimate the farm-level effects of moving toward a more sustainable agriculture for a particular region in the U.S.

Plans include funding of up to six regional projects over three fiscal years (1992-1994). A total of \$750,000 is available for these projects, to be spread over the three years. Depending on the research results, more funds may be available.

We plan to organize a research "Board of Directors" to coordinate the regional projects. The results of the projects will be used later to estimate the regional, national, and international effects.

For the details, contact:

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