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Essays in Rural Economics

Introduction

This issue features individual analyses of four topics in rural economic development. This is by no means an exhaustive treatment of the subject; such would be the task of books, not of newsletters. Indeed, the 1988 Luther Pickrel Agricultural Policy Seminar, "The Rural Economics of the Upper Midwest: How Much Do We Really Know?", spent three days on this topic—and scarcely dented most of the surfaces. Nevertheless, we feel the abridged treatment afforded here can help the reader begin to think through this area of critical public concern for Minnesotans and other Midwesterners.

In the following pages, JoAnn Paulson looks at the record of rural financial institutions and nonfarm business lending. Is the problem one of market failure, not enough money, or not enough knowledge about new business opportunities? Claudia Parliament shows the changing character of rural economic structures and notes the increasingly pivotal role of service industries. Steve Taff examines the extent to which farm economies and farm policies influence—and are influenced by—other sectors of the local economy. Finally, Tom Stinson offers advice to the federal government on the proper way to establish and conduct a meaningful rural development policy.

New Business Finance Problems in Rural Minnesota: Real or Imagined?

by JoAnn Paulson

Discussions of economic development in rural Minnesota frequently focus on the wealth of local entrepreneurial talent and conclude that the problem is lack of capital for new or small business finance. This diagnosis of the problem has led to the call for special community and state lending programs. However, closer examination frequently reveals that perceived capital market problems reflect, rather than cause, weak economic conditions in rural communities.

Public sector lending programs for business all too often duplicate the role of the private sector, but provide an additional subsidy to a few borrowers. If community lending programs are under consideration, it is useful to evaluate the perceived capital market problems by determining which businesses are rationed in financial markets and further determine why community financial institutions have failed to fund the projects. Correct evaluation of small business problems is necessary to target lending programs and avoid duplication of the private sector role.

Deregulation and Efficiency

Deregulation in the early 1980s made the financial system more efficient by decontrolling interest rates and allowing more competition among financial institutions. Increased competition benefited depositors and many consumers of financial services.

Integration of U.S. financial markets helped overcome imperfections in local markets so that most businesses now have a wider range of financing options. However, the public perception is that there are still financial market imperfections in some areas or for some types of businesses.

There may be valid reason for concern that new or very small businesses cannot take advantage of competition in national financial markets because the costs of appraising and servicing small loans are high relative to loan volume and are unattractive to outside lenders. For these potential borrowers, sound business ideas may be rejected because of weak performance or poor information in local financial markets.

Performance of Rural Financial Markets

Most rural banks survived deregulation and the problems of agriculture, but the period from 1982 to 1987 was marked by high loan losses, poor portfolio performance, and low profitability for many rural financial institutions.

Before 1982, agricultural banks, with at least 17 percent of lending to agriculture, outperformed other small banks in profitability, repayment performance, and capitalization. This was reversed during the period from 1982/3 to 1986 with significant loan losses in agriculture and asset quality problems. During that period there was concern that concentration of risk and low profitability made some rural banks more hesitant about new business lending. But even during the period of low profitability in the mid 1980s there was considerable variation in the financial conditions across rural areas, so it is difficult to generalize whether bankers were more conservative about lending to small businesses.

Last year loan quality improved, returning commercial banks to levels of profitability common before deregulation. Agricultural banks were more profitable than other small banks in Minnesota. They were also more profitable than large banks in 1987 and 1988, as they had been before

1983. Most agricultural banks were not hurt by the drought because remaining farm borrowers were financially stronger than in the mid 1980s, collateral (land) values had been rising, and many farmers had access to crop insurance or emergency relief programs.

Most rural banks have now returned to levels of profitability seen in the 1970s and are very liquid. The concerns about poor performance in rural banking markets because of high risk and low profitability may abate, at least in the near term if the economy remains healthy.

There has not been a marked decline in potential competition among banks, and some other types of financial competitors have moved into rural areas. But the potential competition from S&Ls for commercial finance has not been realized.

Deregulation allowed S&Ls to do more commercial lending, but the number of S&Ls in the state fell from 56 in 1980 to 36 by 1982. All but four of the 31 S&Ls left in the state by April 1988 were outside the Twin Cities metro area. However, outstate S&Ls controlled only 20 percent of the assets in the industry.

The S&L industry has been much less profitable since the early 1980s with about one-third of the S&Ls in the state losing money in 1987 and five unprofitable S&Ls in 1988. A few of the larger S&Ls moved aggressively into commercial lending and lost money, especially on loans to the sunbelt. The smaller S&Ls are not a significant source of funds for small businesses.

Information Problems

The second type of market imperfection frequently cited is that local bankers may not be equipped to deal with new business lending. For example, some bankers may not have the information to correctly evaluate the expected profitability of new businesses, especially new products or technology. Some bankers can't provide specialized services or refer clients to state-sponsored business support services to improve the expected profitability of the proposed venture.

There is no way to directly evaluate the claim that rural bankers systematically misperceive the risk of new business lending but there is indirect evidence that the information flow to rural bankers about small business services could be improved.

A survey of 56 rural Minnesota bankers done by The Regional Issues Forum at Spring Hill[1] in mid 1988 showed that some bankers were not aware of all the state-sponsored business support services, although almost all bankers interviewed were aware of some of the services.

For example, most bankers were familiar with the Extension Service and FmHA, but fewer were familiar with DTED's Community Development and Business Promotion Divisions and Small Business Assistance Office, the courses available through SBA, community colleges and technical institutes, etc.

The survey gave additional insights on the low level of new business lending. The bankers cited low demand, high risk, and lack of viable lending alternatives as major problems. About 20 percent of the rural bankers reported no requests for start-up loans since 1985. The Spring Hill study concluded that there appeared to be adequate private-sector funds available for local start-up business needs in most communities.

Summary

There is little direct evidence of capital market imperfections in rural areas. The indirect evidence reviewed suggests that rural financial markets are returning to profitability and are highly liquid.

Bankers perceive the low level of new business finance as a result of low loan demand for new businesses, high risk, or lack of viable lending opportunities. Low levels of new investment and credit availability in small retail centers with high business risk and declining profitability may reflect an efficient market outcome rather than a capital market failure.

It is expensive to use public credit programs to override those market outcomes that reflect shifting economic advantage. There is more justification for running carefully targeted public credit programs if there is solid evidence of potentially viable business proposals that don't get funded because of poor loan evaluation or weak bank performance in the local market. There is a stronger case for public programs designed to help small businesses prepare business plans for loan application and for programs to educate bankers about small business support services.

1. Prestwich, Roger. *Community Bankers in Rural Minnesota: Their Awareness of Small Business Technical Assistance and Their Business Start-Up Lending Experience*. Spring Hill Regional Issues Forum, Oct. 1988.

Income and Employment in Nonmetropolitan Minnesota

by Claudia Parliament

On a percentage basis, agriculture contributes more than twice as much to Minnesota's gross product as it does to the national gross product. However, the relative importance of farm income and employment has been declining in Minnesota.

In what follows, nonmetropolitan Minnesota income and employment trends are outlined and potential economic development strategies based on the reported patterns are identified.[1]

Personal income and employment are examined using Bureau of Economic Analysis (BEA) data for each of the counties in Minnesota.

BEA divides personal income into three categories: earnings; transfer payments; and rents, interest, and dividends. Each of these income categories can be further subdivided as indicated in table 1.

The farm subcategory of the earnings category consists of farm proprietors' net income, salaries of officers of corporate farms, wages of hired farm labor, and payments in kind to hired farm labor. Farm program payments are included in the farm earnings subcategory. The private nonfarm subcategory of the earnings category includes wages, salaries, and proprietary earnings from mining, manufacturing, construction, and services.[2]

Personal Income and Employment in Nonmetropolitan Minnesota

Total personal income in nonmetropolitan Minnesota has increased from \$9.2 to \$17.6 billion during the recently reported decade, 1977 to 1986. Farm income, however, dropped from 15 percent of total personal income in 1977 to 3 per-

Table 1. Personal Income

Earnings	Transfer Payments	Dividends, Interest, and Rent
Farm	Social Security	Real Estate Ownership
Private Non-Farm	Veterans Benefits	Stocks, Bonds
Government	Welfare	Savings

cent in the "farm crisis" year of 1983 (figure 1). Although farm income has subsequently rebounded to 10 percent of total personal income in 1986, a return to a 15 percent share of income is not likely.

The share of income from the combined manufacturing, mining, and construction sectors has also declined during the decade while earnings from the service and government sectors have remained relatively constant as a share of total personal income.

While the farm and private non-farm share of earnings has declined as a percentage of total personal income in the nonmetropolitan Minnesota, the share of the two passive income categories (transfer payments and dividends, interest, and rent) has increased (figure 1). Transfer payments have increased from 15 to 21 percent of total income, and dividends, interest, and rent have increased from 15 to 19 percent so that now 40 percent of total personal income is contributed by passive income sources.

With respect to employment in nonmetropolitan Minnesota, farm employment has declined during the decade as indicated in figure 2. The only significant increase in employment in the nonmetropolitan economy has come from the service sector.

The dominance of the service sector employment in nonmetropolitan Minnesota reflects national employment patterns. During the 1950s, employment in service industries surpassed employment in the production sectors. Since that time employment in the production sectors has remained relatively constant while service sector employment has rapidly increased.

Income and Employment in Agriculturally Dependent Counties

The 71 nonmetropolitan counties of Minnesota differ greatly in their income and employment mix and aggregate data may disguise the importance of farming in some counties. The visibility of farming as an activity and the volatility of farm incomes emphasizes the sense that farming is important in many counties.

Few Minnesota counties, however, are currently dominated by farm income. The U.S. Department of Agriculture defines agriculturally dependent counties as counties with at least 20 percent of total personal income derived from farm income. Based on the 1977-1986 average income, only 14 of the 71 nonmetropolitan Minnesota counties qualify as agriculturally dependent.[3]

Figure 1. Shares of Personal Income for Nonmetropolitan Minnesota Counties

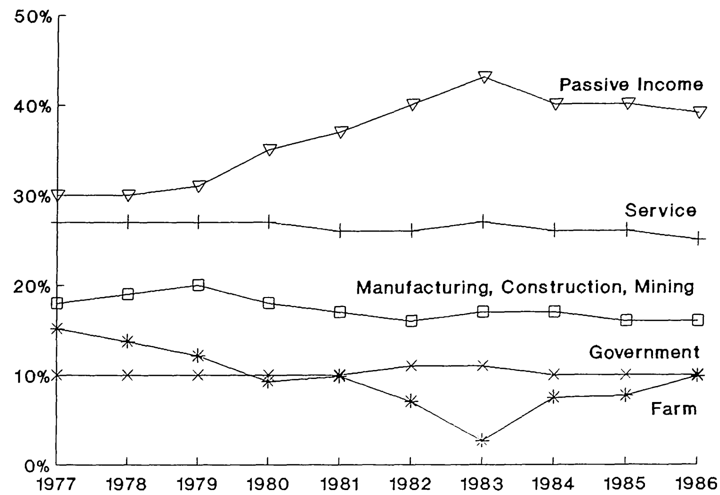


Figure 2. Employment in Nonmetropolitan Minnesota Counties

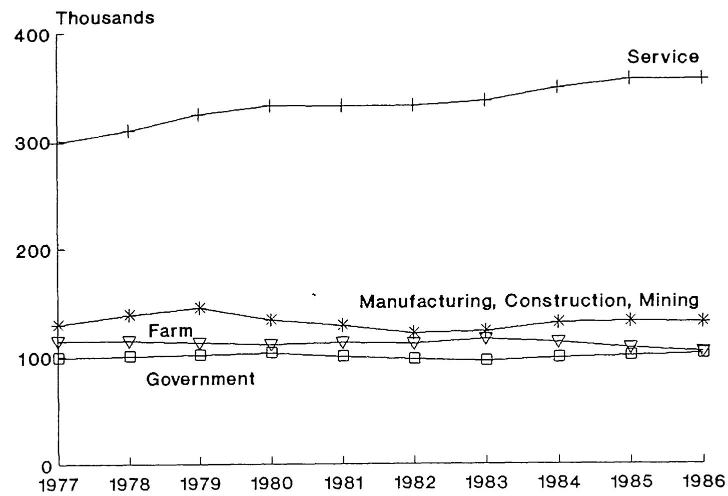
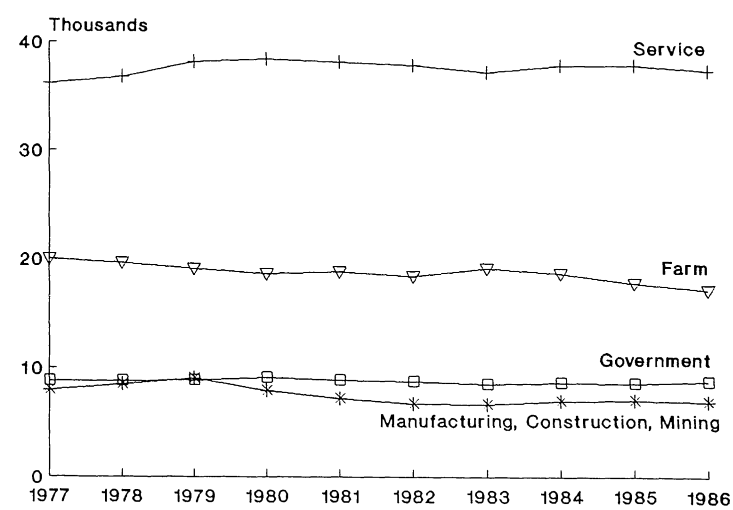


Figure 3. Employment in 14 Agriculturally Dependent Counties



The 14 agriculturally dependent counties have mirrored the other nonmetropolitan counties in income and employment patterns. Total personal income in the agriculturally dependent counties has increased from $990 million to $1.8 billion during the decade 1977 to 1986. Similar to the nonmetro counties, the share of income from passive sources has increased from 31 to 41 percent of total personal income while the farm and non-farm private earnings income share has declined.

With respect to employment in the agriculturally dependent counties, service sector dominates and has slightly increased while farm employment has declined (figure 3).

Economic Development Strategies

The data show a trend away from farm income and employment in nonmetropolitan Minnesota counties while service industry income and employment have remained constant or have increased. Given this pattern, what are potential strategies for economic development in nonmetropolitan counties?

Economic development strategies frequently pursued by communities include attracting new manufacturing industries and increasing funds received from state, federal, and foundation sources. Developing new processing techniques, using existing products in new ways, and bringing in new manufacturing employers will increase income and employment in the rural economy.

These strategies may dramatically increase employment and income, but they can also involve large expenditures with little benefit. Development based on these approaches can be a high payoff, high risk strategy.

Development strategies based on service industries may not require major capital expenditures but can increase diversification and employment in a slow and steady fashion.

Examples of economic development strategies based on a service sector include encouraging seniors to remain in rural towns by providing the services they need and want. As farmers retire and move to rural communities these retirees form a market for diversified social, health, and business services. Communities can counter retirement migration by providing desirable housing and recreation. Most seniors are not poor; on average they have the highest disposable income of any age group.

Alternatively, nonmetropolitan communities can try to capture tourism trade from the more than 2 million residents of the metropolitan area. Examples of tourism development strategies include the development and promotion of events and recreational facilities. Many communities are not fully aware of the economic benefits of the ethnic, cultural, seasonal, and recreational activities that attract tourists.

Improving the management capacity of existing businesses and encouraging the formation of businesses by local residents are two frequently overlooked development strategies. These strategies can be implemented through educational programs for local entrepeneurs.

The suggested strategy of service sector development is not meant to replace longer term strategies based on infrastructure and human capital development. In many rural communities, however, service industries are the most likely source of future income and employment.

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1. Nonmetropolitan Minnesota includes all but the 10 counties of the Twin City area, the 3 counties surrounding St. Cloud, and the counties containing Duluth, Rochester, and Moorhead (Anoka, Benton, Carver, Chisago, Clay, Dakota, Hennepin, Isanti, Olmsted, Ramsey, St. Louis, Scott, Sherburne, Stearns, Washington, and Wright).
2. Here the service sector includes the 6 BEA industry categories of financial, insurance, real estate; transportation, communication, and public utilities; entertainment, repair, business, and social services; retail trade; wholesale trade; and agricultural service, forestry, and fisheries.
3. The 14 agriculturally dependent counties are Cottonwood, Grant, Jackson, Kittson, Lac Qui Parle, Lincoln, Marshall, Murray, Norman, Red Lake, Traverse, Watonwan, Wilkin, and Yellow Medicine. Kittson and Marshall counties are the most agriculturally dependent with over 30% of total personal income arising from farm income during the decade.

Farming, Farm Programs, and Local Economies

by Steven J. Taff

The notion that what's good for farming is good for the rest of the rural economy has come under fire recently. Arguments against it can be placed into two categories. The first is that the farm economy is so small relative to other economic sectors that agriculture's prosperity or decline just doesn't affect nearby communities as much as it once may have. The second argument is that American farm policy is so structured that any help it does give to farmers doesn't filter through to the rest of the community.

Farm Economy

Farming indeed constitutes a smaller portion of the rural economy than it used to. The bulk of net income in most Minnesota counties comes from manufacturing, service industries, and transfer payments like Social Security—not from farming. Nevertheless, farming is still a large—if not the dominant—economic sector in many Minnesota communities. As such, the ebb and flow of farming greatly influences local economic activity.

Increased production means more seed purchases, more equipment sales, and more storage and handling business opportunities. This activity is largely independent of the number of farmers; rather, it is tied more closely with the physical resources devoted to agricultural production.

Another major local economic impact of farming is the spending and social interaction of farmers and their families. Many local businesses, such as those providing consumer services, depend more upon the number of people in an area than upon the level of any economic activity they may generate. Such local businesses will likely suffer further as the generations-old trend toward larger farms, fewer farmers, and smaller families continues.

A third link between the farm sector and the rest of the economy is the property tax. Despite substantial favorable tax treatment afforded farming by the Minnesota Legislature—statewide, farms pay annual property taxes at about .85 percent of property values compared to 1.35 percent for nonfarm residential properties and 3-5 percent for other businesses—farmland remains the principal source of local revenues. For example, farmers pay 69 percent of the net property taxes in Wilkin County, 49 percent in Faribault County, and 55 percent in Murray County.

Shifts in farmland value, for whatever reasons, will obviously have significant impacts on these communities' wealth, their property tax bases. If tax rates are to be kept unchanged, then total tax revenues will have to rise and fall with farmland values. If local authorities instead adjust tax rates to keep revenues constant, then a decline in farmland value forces both an increase in all sectors' tax rates and a relative shift in overall tax burdens toward nonfarm sectors of the local economy.

Some observers argue that whatever its size relative to the rest of the economy, agricultural (and other natural resource) production is the foundation without which all other community economic activity would falter. However, this notion that new wealth is obtained only from nature fails to recognize the value of physical or intellectual labor.

Rather than saying, as is common, that farming "generates" X dollars (or jobs) in a community, it is probably more precise to say that each dollar spent on farming "is associated with" X dollars of spending in the community. Such a distinction is more than semantic: the preferred version properly enfolds farming into the broader community economic structure rather than viewing it as the sole driver of that economy.

Farm Policy

The idea that American farm policy hurts rural communities is of more recent vintage, even though the programs themselves have been in place for over fifty years. At harvest, a farmer can get a government loan, at the "loan rate," for each bushel of production. If the market price stays below the loan rate, the farmer can forfeit the crop rather than repay the loan: the government buys the crop at an above-market price. At the same time, the government directly gives participating farmers a "deficiency payment," based on historic planting records, of a set amount per bushel.

The original intent of these programs was price stability. Farmers were to benefit, it was argued, if the price roller coaster could be smoothed a bit. If all farms were roughly equal in size—as they perhaps were perceived to be in the 1930s, when much of our present farm legislation was formulated—then all would benefit equally from any income enhancement associated with the stabilizing mechanisms. Today, however, increasing numbers of farms show up at either the high or the low end of the size spectrum. Farm programs designed for price stabilization (a market-wide focus) but increasingly relied upon for income support (a very local focus) will not meet a goal of financial protection for all farmers.

Clearly, farmers who grow more crops, get more money under these programs. This distribution of payments has two pernicious effects on the rural economic and social fabric, according to its detractors. Both relate to farm structure—how many people control how much land.

First, insufficient income support may accrue to smaller farmers, thereby forcing them into (or, more precisely, failing to prevent them from) bankruptcy. At the very least, they may have to find off-farm jobs to support the farming operation.

Second, the payment system provides a stimulus for big farms to get even bigger, and big farms, some say, hurt small towns. Farm program critics point to a study done forty years ago in California that linked farm structure to community economic and social vitality. Dinuba was surrounded by smaller farms and was thriving; Arvin, on the other hand, was surrounded by a few very large farms and was stagnant. The conclusion: big farms were the cause of Arvin's problems.

This study has proved extremely influential in shaping public thinking about farm structure. However, its results have been replicated in few other places in the country. A definitive research project just published (*Agriculture and Community Change in the U.S.: The Congressional Research Reports*, Louis E. Swanson, ed.) found firm evidence of big farms hurting small towns **only** in parts of California and elsewhere in the southern tier of states.

The authors concluded that it is not farm size **per se** that hurts small towns, it's the organizational structure of the farms themselves. Only so-called industrial farms—with outside ownership, mobile management, and a dependence upon a hired (and often low-paid) labor force—appear to be incontrovertibly linked to small town malaise.

Industrial scale farms are largely absent from the Midwest, particularly from Minnesota, where ownership and management are generally joint and production is dependent more upon machines than upon hired labor. So while federal farm programs do pay more to larger farms and may provide an incentive for farms to grow even larger, the programs are probably not in and of themselves a detriment for smaller towns.

Two other adverse consequences of American farm policy on small towns have been posited, however, by quite different parties: the dampening of local economic activity by land retirement programs and the stifling of creative farm practices by lucrative program crop subsidies. These consequences are not traceable to farm size.

In order to keep a check on federal expenditures for crop subsidy programs, the government requires that participating farmers plant no more of a program crop than their established "base," or historic production record. In most years, the government further requires these farmers to further reduce their plantings by 10 percent, 20 percent, or more, depending upon crop surplus forecasts. This requirement is designed to reduce output so as to drive up the market price and diminish public expenditures even more.

Businesses that make their money on how much grain is moving through the system and that make less money if some of the local production base is idled are understandably displeased with these required "set asides." They argue that idle land hurts local economies even as it helps the federal budget.

The farm programs also inhibit experimentation with so-called low-input or sustainable agriculture techniques, critics contend. Because the subsidy programs for wheat and corn have proved so lucrative over the past several years, eligible farmers have almost all signed up. That means more land in wheat and corn (or set-aside) and less, potentially, in alternative crops and imaginative crop rotations. This is felt by some to restrict the use of agronomic practices that promise to be more environmentally benign than current techniques.

Farm policy isn't all bad, of course, as even its detractors agree. The crop subsidy programs are beneficial—at least in the short run—as they pump outside money (generated from taxpayers throughout the country) into local pockets. Present infusions account for roughly half of net farm income.

Without the federal farm programs, many (but not the majority of) Minnesota farmers would be out of business. (Their land, however, would still be farmed; farm numbers and total farm acreage are largely independent of each other.) Whether or not different subsidy schemes would be more cost-effective or could be more appropriately targeted is a hotly debated topic, but one that is largely unexplored in practice.

Conclusion

The farm business and the farm family lie amidst a tangle of economic and social links with the rest of the community. Rural economic development strategies that ignore the farm economy do so at their peril, but so do strategies that would rely upon a return to farm prosperity as the sole salvation of the broader community.

Toward a Federal Rural Policy[1]

by Thomas F. Stinson

Congress and the Bush Administration have already begun the long negotiation process that will produce the 1990 Farm Bill. The majority of their efforts will be devoted to analyzing, revising, and modifying regulations governing provisions affecting specific farm commodities and more general programs affecting the entire agricultural sector. But, formulation of the farm bill can also prompt a re-evaluation of federal initiatives to assist the nonfarm portion of the rural economy.

Rural America's special needs have been largely ignored during the eighties, and the safety net for rural communities and their residents removed. If, over the next eighteen months, debate over the farm bill can be broadened into a discussion of rural policy, attention can be drawn to the needs of those living in rural communities, but not directly dependent on agriculture.

Ironically, last summer's drought may have improved the likelihood that a rural policy which begins to deal realistically with the future of the nation's nonmetropolitan communities can be established. Grain stocks have been drawn down and commodity prices increased, producing expectations of lower farm program costs for the next several years. Some of those savings could be allocated to funding new rural initiatives if a consensus can be reached on the nation's goals for those living outside the urban centers.

Defining a comprehensive public program dealing with the problems of rural people and their communities will be an enormous task requiring considerable debate and negotiation. Rural communities are not identical, and programs which may be of great assistance in southern Minnesota, for example, may not be helpful on the Iron Range, let alone in rural Mississippi or Appalachia.

Certain general principles or guidelines for formulating a national rural policy are apparent, however. Those principles are described briefly below.

1. Rural policy, and federal and state programs, must not be based on the assumption that rural communities are going to die. Contrary to conventional wisdom, a decline in main street is not the death knell for a community; it is only a sign that the region's economic geography is changing.

   Certain rural communities are now evolving into lower order trade centers. In others, particularly the hamlets, fewer services are now offered. But, a declining commercial sector does not mean that all the houses in the community will soon be boarded up. It is only a signal that a community's future role in the regional economy is being redefined.

   Improved transportation and communication have changed the set of goods and services that must be provided in every community. Today's consumers, motivated by concerns over price and selection, are much more willing to commute to regional shopping centers than were their parents. The result is that some local retail outlets are no longer needed. However, as urban neighborhoods did not disappear when suburban shopping malls developed, rural communities will not die as main street activity continues its shift to the regional shopping malls.

2. The federal government must play a major role in any efforts to re-vitalize rural communities. During the nation's recent transition to "do-it-yourself federalism" the states have been forced to assume a larger and larger share of the responsibility for providing the safety net for individuals. Now, state and local resources are stretched thin. Without federal assistance it is unlikely that any significant policy initiatives can be undertaken.

3. Viewing rural communities as spatially separated neighborhoods, inter-dependent and not self-sufficient, is a key step toward bringing realism to rural development planning in much of the nation. State and federal programs need to reinforce the idea that rural communities should view each other as cooperative neighbors rather than competitors. Programs that consciously pit one community against a neighbor should be avoided.

4. The entire nation has a stake in the welfare of rural communities. Migration from poorer communities to more prosperous ones often crosses state lines. During the early 1980s, declines in the resource-based industries—agriculture, mining, and forestry—created a new group of disadvantaged rural people, people who lived outside the counties of Appalachia and the South with their historically high concentrations of poverty.

   The challenge for rural policy today is to identify and fund appropriate public programs that will prevent the transformation of today's "new rural poor" into additional pockets of long-term, multi-generational poverty.

5. Agricultural policy is not rural policy, but rural policy must not ignore the contributions of the agricultural sector. It has almost become fashionable among some groups concerned about rural America to dismiss the contributions that agriculture and agricultural policy make to the rural economy. Diversification, attracting new manufacturing, import substitution, and creating high-value-added products locally are frequently offered as the solution for rural America's problems.

   Unfortunately, in much of rural America manufacturing simply cannot grow enough by itself to allow the local economy to recover. Healthy resource-based industries—agriculture, mining, and forestry—are essential elements of many local economies. If these industries remain depressed, many local economies will not recover even with growth in sectors outside those traditional industries.

6. Policy makers should begin their search for rural program alternatives by looking for points at which the assumptions necessary for a perfectly competitive, free market system are not met. When programs which overcome existing market failures are established, total state and national output will increase, and public intervention does more than merely transfer income from urban to rural residents.

   Two "market failures" are often noted: 1) there may be insufficient information about opportunities in rural communities available to those seeking a site for expansion or relocation and 2) there may be barriers to the free flow of capital to those willing to invest in rural communities.

7. Direct public subsidies for rural development should be limited, visible, and well targeted. And, program managers at all levels—including those in quasi-public, and non-profit organizations, as well as private sector participants—must have a direct stake in the program's success.

   When changes in the institutional structure are necessary, time must be allowed for the necessary adjustments in the private sector to occur. Continually subjecting rural development to the whims of the appropriation process creates uncertainties for program planners and private agents which greatly limit the long term effectiveness of programs. Automatic, self-financing programs should form the core of federal and state rural policy.

Conclusion

The rural recession of the 1980s has increased the need for a well defined national rural policy. During the last eight years many formerly strong local economies have grown increasingly fragile and vulnerable. And, as the incomes of those living in the community dwindled, main street businesses have closed and additional jobs have disappeared.

The goal for rural policy cannot be to return each nonmetro community to the position it occupied in the economic hierarchy during the 1950s, for the changing roles that small communities are playing on the economic landscape must be recognized. But, national and state policy must recognize that some people will continue to live in rural communities, and that it is in the nation's best interest to insure that those who do, and their children, do not become second class citizens.

1. This section draws heavily from "Helping People in Place: Federal Rural Policy for the Nineties", a paper presented at a symposium sponsored by the Congressional Research Service at the request of the Joint Economic Committee. The Northwest Area Foundation has provided financial support for the author's program of research on rural economic development.

Department Launches Two New Projects

The Department of Agricultural and Applied Economics is pleased to note the initiation of two major projects addressing the concerns of rural Minnesota and the Upper Midwest. Both projects couple existing staff talent with additional resources made possible by the generosity of outside institutions.

Public Issues Education

"Restructuring the Upper Midwest: Policy Issues and Choices" is the title of one of the projects now managed by the department. Work began in earnest in early March, when Jane Stevenson came on board as project director.

A series of public education "events" will be mounted in Minnesota, North Dakota, South Dakota, and Montana, covering a wide variety of topics, pegged to the needs of each of the four states.

This is a three-year project, funded by the W. K. Kellogg Foundation and under the guidance of a steering committee of the Cooperative Extension Services of Minnesota, North Dakota, and South Dakota, and the Local Government Center at Montana State University. The public policy education offered through this project will be modeled after the ongoing Luther Pickrel Agricultural Policy seminars.

Three types of events are currently being planned through this project: 1) organizational options for rural schools and school districts, 2) the functioning of rural financial institutions, and 3) the implications of the free trade agreement with Canada. Planning committees have been established for each event. A fourth topic, the delivery of health care in rural areas is in the stage of preliminary planning.

The first event, organizational options for schools, will be held in Fargo in mid-November. For additional information, contact Jane Stevenson at (612) 625-6232.

Rural Development Education

In the spring of 1988, The Bush Foundation awarded a grant to increase the University of Minnesota's involvement in rural community economic development. This rural development education project addresses the fundamental economic problems faced by Minnesota's rural communities and strengthens the university's capacity to address future issues and problems facing rural Minnesota in the 21st century.

The project has two main thrusts. One thrust is to add additional expertise to the department in the area of regional and community economic development. Two new positions will supply the added expertise, one focusing on community economic development and the other on economic development policy. These new positions will complement existing faculty in several related subject matter specialties.

The second thrust will be to train extension field staff. Selected MES county and area staff will undertake a program of course work and practical experience under the guidance and supervision of campus-based faculty. Field staff will then help communities, counties, and regions to develop and implement effective economic development strategies.

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