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# THE CHANGING NATURE OF RURAL COMMUNITIES

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## Introduction

Prior to the decade of the Seventies, when rural communities in the United States entered the period known as the "population turn-around," their role in the larger economy was somewhat clearer than it has been at anytime since. In general, urban areas produced products in the early stages of the product cycle, while rural areas generated raw materials, food and energy, and in some regions, provided low cost labor for the production of products in the mature stage of the product cycle. Private services were generally located near the basic economic activities (production and consumption) which generated their demand. The economic fortunes of individual rural communities, though not particularly good, were closer to that of the average community than they have been since.

Until the Eighties, it was relatively meaningful to speak of rural conditions and the rural problem. Each year, resource-based industries produced more but employed fewer laborers. But, at least communities could count on the linkages between these sectors and their financial, trade and service sectors. Most rural communities also had a predictable and stable relationship with their manufacturing sector.

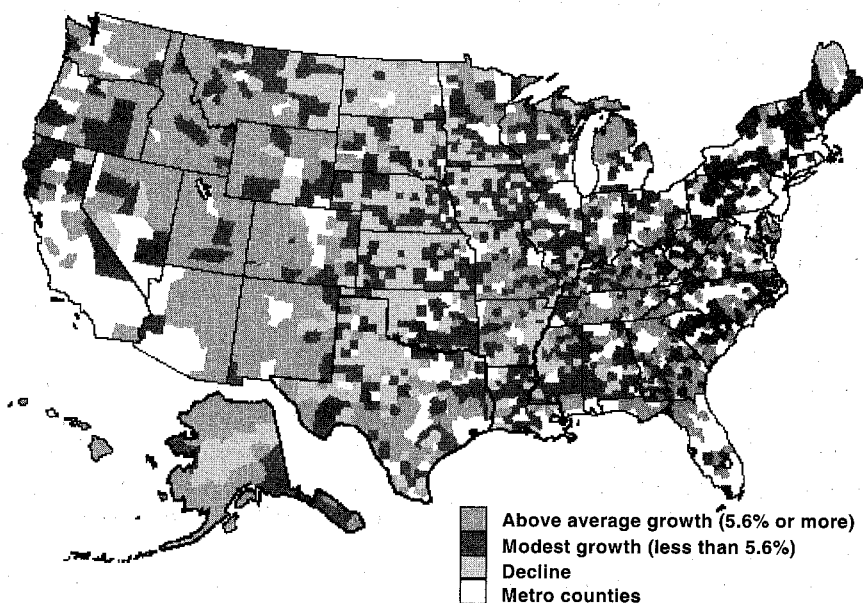
But, even during this period, the global economic structure was beginning to change. During the population turnaround, a fundamental transformation occurred in the sectoral structure of rural areas. As rural America emerged from the Seventies, the short-lived population turnaround seemed to be over, but the basic economic rules were different than when they began. Some communities used the experiences and resources gained during the Seventies to free themselves from the downward economic spiral. These communities are now immersed in a transformation from traditional rural communities to modern ex-urban communities with rising demand for land, changing demands for public services, and new types of stresses and conflicts.

Other communities fell back into decline. The deregulation, the dismantling of community safety net programs, the globalization of economic relationships, and changes in the nature of the product cycle were too powerful for these communities to overcome. For them, the downward spiral of the pre-Seventies era returned in the Eighties.

Evidence from the current decade suggests that, overall, the Eighties may have been the anomalous period, rather than the Seventies. Growth has returned to the average rural community. Yet, the dichotomous experience of the rural communities in the Eighties remains. Despite the fact that growth is occurring in rural communities in every region of the country, one-quarter of all rural communities continue to decline, and three-quarters of all non-metro growth occurred in just one-third of non-metro counties (USDA-ERS). Just as the personal income distribution in this country has spread since the late 1970s (more rich and more poor), so has the disparity of economic fortunes among communities. The economic development issues of today are dichotomous, with a clear distinction between the issues facing the growing and declining communities.

The following map, reproduced from *Rural Conditions and Trends*, shows the dispersed nature of rural growth (Figure 1). Notice that almost all the declining counties are in the Plains region from North Dakota to Texas.

**Figure 1. Nonmetro Population Change, 1990-95.**



Note: National average growth for this period was 5.6 percent.

Source: Bower, Doug and Peggy Cook, eds. *Rural Conditions and Trends: Socioeconomic Conditions Issue*. Vol. 7, No. 3. Washington DC: USDA/ERS, February 1997.

This paper deals with the economic changes that have led to the dichotomization of economic fortunes in rural communities. The observations and conclusions are based not only on the authors' experience with and research in rural communities in the United States, but also on our experience with the European Union; especially

Northern Ireland and the Republic of Ireland. While the precise nature of change varies from place to place, we believe the following trends are true for many rural areas in the world. We address ten major forces that are shaping rural communities in three broad categories: the changing economy, changing demographics and changing governance.

## **The Changing Economy**

One cannot understand the changes occurring in rural America without understanding the changes, mostly global, occurring in the broader economy. Several forces have combined and are leading to significant changes in rural life throughout the world. These forces include changing technology, globalization and localization.

**Technological change.** Technological change is so ubiquitous that it heads most lists of change. From the perspective of rural communities, technological change effects more than just the way in which products and services are produced. Technological change has and will change the very economic bases of rural areas, their relationship with the rest of the national and global economies and their internal social structure.

In production, the most significant economic forces are the rising importance of information, communication, robotics, artificial intelligence, genetic engineering, and other embodiments of technology. In addition to the direct effects of these changes on employment, they have led to increased use of services (particularly, information-related services), and reduced use of goods (particularly, raw materials) in the production processes of other manufacturers.

The productivity of labor in most goods-producing industries has risen dramatically (approximately fourfold, or 300 percent, in the last half 40 years). The productivity of labor in services, on the other hand, has increased considerably less (about 25 percent) (Pulver). These increases have been accomplished by combining increasingly greater amounts of capital with each unit of labor. Since the demands for many goods have risen only slightly, the growth of employment in these industries has been meager, if positive at all. Some of this new capital has been introduced to take advantage of the emerging technologies discussed above, while other capital has been substituted for high cost labor. It is important to note that as this trend progresses, the cost of labor becomes less and less important in location and investment decisions because it makes up a declining portion of total costs. This process, then, can have positive effects on income, job security, etc., even while it reduces employment.

As a consequence of technological change, goods production and employment have become decoupled. Production has increased while employment has decreased. Intersectoral linkages have replaced intrasectoral linkages. In addition, the product

cycle has been broken, at least from the perspective of domestic rural economies. Rural areas are losing some of their comparative advantage in goods-producing industries that use labor extensively (Bluestone).

Technological change also effects the relationship that people share with each other, with their communities and with their governments. People are more mobile, more flexible in their choices of employment and residence, and have greater access to information. Technology, then, facilitates and, indeed, foments the other forces identified—globalization, localization and the various aspects of changing governance.

The linkage between productive activity and distribution of income has changed. The substitution of capital for labor affects the functional distribution of income by shifting returns from the owners of labor to the owners of physical capital and human capital. In the case of agriculture, this has resulted in larger farms, shrinking farm population and declining labor income. However, these changes are not nearly as dramatic as those occurring in some mining, forestry and manufacturing-dependent communities. Unlike agriculture, where the owners of the physical capital are much like the owners of the labor that they are displacing, the owners of physical capital in mining, forestry and related manufacturing industries are very different from the displaced labor. In addition, the so-called “Wal-marting of Rural America,” in which independent, locally-owned retail businesses and service establishments are replaced by large chain stores, is changing the ownership of physical capital as well.

These new owners of rural physical capital are frequently very affluent, and usually not residents of the community in which their investments are made. They tend to spend their income outside the community and this leads to lower employment and income multipliers in the community (Bernat). The income tends to be distributed more unevenly (Bernat) and be more variable in these communities (Kraybill, Johnson and Deaton; Johnson, Kraybill and Deaton). These factors combined lead to a number of conditions (health, education and housing) associated with lower quality of life (Kraybill, Johnson and Deaton).

**Globalization.** The “globalization” of the economy is so frequently cited as an important economic force that it has become a cliché. Increased trade and global competition among firms is usually the assumed consequence of this globalization. Of greater significance to communities, however, is the movement of information, technology, capital and people. In addition to the competition in markets for goods and services, then, is the heightened competition among communities around the world for jobs, residents and finances.

Globalization has left many communities unsure of their best strategies. Public investment in human capital often increases the mobility of a community’s labor force. In declining communities, this undoubtedly reduces the incentive to invest in

people. Industrialization-incentive programs are very risky and, when successful, attract employers that can as easily be lured away again by another community with another attractive incentive offer.

**Localization.** Localization is the growing role of local conditions and local choices in determining the prosperity of a community. The reasons for the growing primacy of local circumstances include technological change, changing social and political attitudes, and, ironically, the globalization that has opened competition with the world. Reich, in *The Work of Nations*, describes how global competition means that we, as a nation, are no longer in the same boat. The prosperity of our community depends on if we are competing with the rest of the world as routine producers, or if we have based our economy on efforts of symbolic analysts. Rural communities, then, depend on how well their employment base fares.

There is a growing freedom of all industry, but most strikingly of services, to behave like footloose industries. The declining role of goods, especially raw materials, in production, and the use of information technology has provided both traditionally factor-oriented and market-oriented industries with a wider array of potential locations. Many factor-oriented manufacturing industries choose to transport their raw materials to areas where they are closer to their markets, where amenities are higher, or where factors other than raw products are lower cost. On the other hand, the growing role of information exchanges, communication technology, and computers allow many services and otherwise market-oriented industries to locate at a distance from their markets. Newspapers need no longer be local. National newspapers can exploit economies of size without compromising quality. Satellite and fiber optics technologies allow instantaneous audio, video and information transmissions over long distances. This allows financial, insurance, real estate, educational, business management, accounting, legal, and many other services to centralize some functions and decentralize others but, in general, frees them from locating strictly according to the location of their clients. Indeed, many of these services can be, and are being, provided in international markets just as goods have always been. Retailing will become increasingly footloose as consumer acceptance of mail order and computer shopping rises. New service industries, yet unimagined, will undoubtedly arise to take advantage of the new technologies.

Overall, we observe an emerging economy in which the definitions of economic base, services, public and private enterprise, competition, and even sectors themselves have become blurred. We see an economy in which trusted linkages—linkages between production growth and employment growth, and between base and non-base industries, and between activity and place have been severed. We see an economy in which linkages have become more numerous, but more decentralized, and where distance becomes a resource rather than a cost or constraint.

## Changing Demographics

**Migration to Rural Communities.** As pointed out in the introduction, many rural communities, especially those in the West and East, are experiencing significant inflows of new residents. This in-migration consists primarily of older adults who are, or who expect to be, retired, and of telecommuters or business people no longer tied to particular locations. This trend obviously brings new investment and income to selected communities. It can also lead to rapid increases in prices for housing and other real property. In addition, this kind of in-migration puts significant new demands on private and public services, and can lead to economic and social conflict between the “come-heres” and the “from-heres.”

**Aging of the Population.** As the baby boom generation begins to turn 50 and as life expectancy continues to rise, the overall population of the United States is becoming older. The elderly, especially the baby boomers, tend to be quite mobile and, as we have seen, are increasingly choosing non-metropolitan communities as their destination. Since the poorer elderly may not migrate as readily as the wealthier, declining communities may experience rising poverty and increased demands for social services. Growing rural communities will face increased demands for other public services and amenities.

As residents in rural communities age, more people will receive direct and indirect income from federal transfer payments. In some communities, over 40 percent of total personal income comes from Social Security, Supplemental Security Income, Medicare and Medicaid payments. As aging continues, and as debates about growth in federal entitlements intensify, the issue of transfer payments in many rural communities will become increasingly important.

**Settlement Patterns.** Changing settlement patterns also affect the nature of rural community life. Increasingly, people are interested in fleeing the congestion, crime and high cost of urban life for the quieter, safer and more affordable surroundings of the rural and metropolitan fringe areas. The availability of highway infrastructure makes this possible. Furthermore, travel in the United States is inexpensive. Transportation systems are in place and employment is increasingly located in the suburbs. These conditions, along with the increased participation of women in the labor force, contribute to increased commuting in rural communities.

In many areas of the country, rural jurisdictions lack the planning resources and the physical infrastructure to respond to this kind of “ex-urban” growth. This growth then exacerbates existing fiscal constraints for local governments and, in some cases, contributes to problems with water quality, air quality and other key natural resources.

Commuting can affect the entire social organization of a community. Prior to the 1970s, rural people tended to live and work in the same place. Now, more people are spending less time in their communities of residence. These people now have less time to contribute to the social, cultural, economic and political life in their hometowns.

## Changing Governance

Devolution has become a commonly used term to describe the changing relationship between central and local governments. In September 1997, the Scots and Welsh supported the idea of regional parliaments—a concept referred to as devolution by the British Government. In the United States, devolution refers to the process of shifting policy responsibility from the federal government to state and local governments.

Changing governance is a larger trend than just devolution, however. It includes a fundamental rethinking of how policy decisions are made and how public services are delivered. Our system of governance is changing partially in response to changing societal values and partially as a consequence of technological change. One aspect of changing governance is the growing reliance on performance-based measures. Another is the trend toward privatization. Most fundamentally, governance is becoming more inclusive and broad-based.

**Devolution.** Throughout the world, communities are faced with the prospect of making more decisions of greater importance than ever before. For rural communities, this is often a tall order given their small staffs and resources, and their limited experience with many of the new areas of responsibility. Each area of responsibility creates its own problems. In the area of economic development, communities, often neighboring communities, find themselves pitted against each in the competition for migrating employers. In health care and welfare reform, communities are faced with new mandates and numerous alternatives for satisfying them.

**Privatization.** Privatization is the public sector equivalent of outsourcing, which has characterized the changing structure of the private sector for the last decade or more. Outsourcing refers to the practice of going outside the firm for services that have traditionally been provided internally. A firm may shed its accounting, legal, or maintenance departments and contract with an independent firm for the services. Similarly, governments are experimenting with privately-operated prisons, private owners of toll roads, and even private providers of “workfare” and economic development programs.

Privatization affects our perception of the government as well as its operation. Privatization makes government seem smaller, and the economy appear more private



sector oriented than it really is. It also makes the economy appear more diversified than in the past. A critical question, yet unanswered, is what services—in what locations—can be effectively privatized? Will privatization be an advantage or a disadvantage to sparsely-populated rural areas?

Privatization of government functions can be a more efficient way of operating if it encourages innovation and allows smaller governments to capture some of the benefits of size economies.

The preconditions for effective privatization vary from case to case, but some generalizations are possible. First, there should be a potential for economies of size in the privatized activities. This allows a private firm to provide inputs cheaper than a single government could itself. It also encourages the private firms to grow by offering its good or service to several governments or to both public and private customers. Second, appropriate infrastructure must be present to facilitate management over larger areas. This typically includes communications and air transportation infrastructure. Third, privatization may require more formal and sophisticated financing and insurance because of the more limited financial responsibility of the private firm compared to local governments. Finally, privatization works best if there are significant opportunities for innovative practices. Private firms may have more incentive to be more innovative than governments, and innovation leads to improved services and lower costs.

**Performance-Based Government.** Performance-based government is designed to target limited public resources for maximum impact, to provide incentives for government units to improve the delivery of public services and to hold government more accountable to specific measurable objectives. This trend is seen in a variety of policy contexts. Attempts by the Clinton administration to “reinvent” government, and efforts to implement the recent Government Performance Review Act are visible examples at the federal level. At the community level, states such as Oregon (Oregon Benchmarks) and Minnesota have initiated the use of key performance indicators and specific short- and long-term quantitative targets for each of these measures, identified through a grass-roots process. Performance measured against these targets will, in part, determine local government assistance from state funds.

Missouri, along with other states, plans to develop a community-based response to welfare reform. In this context, communities will be asked to devise local strategies to achieve specific, targeted objectives. The state will then provide financial assistance and the regulatory flexibility to implement that strategy, provided the community achieves its stated objectives. Communities that do not meet these objectives will have fewer resources and/or more restrictions on how state funds are invested.

The trend toward holding communities accountable for effective delivery of public services is a global one. For example, the European Union recently announced an integrated strategy for investing European structural funds in regional economic development. In the current program, EU distributes funds to member states, based on a set of formulae. Member states then have the responsibility to distribute these funds at the local level. In the new strategy—Agenda 2000—the EU will target selected sub-national regions for greater investment, and will award these funds directly to communities, based on how these communities perform against key criteria.

This trend places even more importance on the capacity of rural communities to manage information and develop strategies to interact with that information in ways that help them achieve measurable improvements in the delivery of public services.

**Decentralization of Decision Making.** The most fundamental aspect of changing governance is the tendency toward greater decentralization in the decision making process itself. Throughout the world, community residents are demanding more direct influence over the decisions affecting their communities. Information technology and communication infrastructure tend to support this decentralization process by reducing the transactions costs involved in becoming informed. They also facilitate the process of achieving agreement by reducing the transaction costs involved in communication.

Thus far, U.S. policies with regard to information and communication infrastructure in rural communities have focused on the “supply” side. That is, a key objective is to assure some minimal level of access to telecommunications infrastructure to residents of all places—great and small. Addressing “demand” side issues is of equal or greater importance. In this case, demand is the capacity and desire to use information technologies. The European Union now funds a broad range of projects designed to enhance demand and build the capacity of local residents and community leaders to use information technologies to make better decisions in the private, public and voluntary sectors. The program, called the Information Society (IS), provides funding for training in computer literacy and application, as well as the development of computer-based community decision support systems.

The capacity of individuals to participate in the Information Society is determined by the quality of information and telecommunication infrastructure, as one would expect. However, other factors include widespread education and training in the use of information, effective promotion of IS, technical support for the diffusion of IS activities, and public awareness (European Union).

## Conclusions

Given the significant economic, demographic and governance changes occurring in rural communities—in the United States and in many other parts of the world—the following program responses are particularly important.

**Policy Research.** The trends discussed here are new, they have global significance, and they are not well understood. As stated above, these changes will afford opportunities for some rural communities to survive and thrive. Some communities will face formidable challenges. Western social science developed largely out of a need to make sense of the transition to the industrial age. The trends discussed here demonstrate how the transition from an industrial- to an information-based society is experienced in rural communities. Community residents must appreciate their stake in such policy debates as those related to medicare, managed care, telecommunications and welfare reform. Policy makers in state capitols and in Washington, D.C., must understand how their choices will affect the quality of life in different places. Researchers must develop the theory, methods and empirical results needed to conduct these kinds of policy impact assessments. Just as the classic social theorists confronted the challenges of the late-Nineteenth Century, rural social scientists must systematically examine the contemporary changes occurring at the community level.

**Technical assistance.** The demand is already great for understanding the “community consequences” of policy alternatives or of particular economic development strategies. In the future, this demand will only increase. Land grant scientists can play a key role in improving and extending the capacity of local groups to understand their options and make more informed decisions. Toward this end, we have proposed the development of a national network of scientists involved in community level economic and fiscal impact assessment, and in community decision support (Johnson and Scott). As community leaders and residents accept more responsibility and authority for determining their own future, they need a toolbox of practical, quantitative decision tools, as well as the training and support needed to apply these tools.

**Reform of local government statutes.** In most U.S. states, the authority and responsibilities given by law to local governments are out of date and offer little flexibility. Currently, many small rural government units are experiencing fiscal crises, and must focus limited resources on preserving the most basic of public services, such as roads and water treatment. All aspects of local revenues and expenditures should be re-evaluated—taxing authority, school financing, land use controls, regulation of business and industry, and relationships with other governmental units. Recently, a chief executive for a local government district in Northern Ireland described the role of her local district as that of a facilitator, mediator, partner and champion. In

the future, local public officials in the United States will need the authority, flexibility and resources to play these critical roles.

**Exchange of International Best Practices.** Often, rural community leaders are spread dangerously thin, and feel they alone face their particular set of challenges or opportunities. Our recent experience suggests that the trends described in this paper are experienced throughout the developed world. Public policies that affect rural places vary significantly from the United States to Canada, the European Union, New Zealand, Australia, and the Pacific Rim. A true exchange of best practices among policy decision-makers, community leaders and social science researchers will provide more insight and support for communities in the United States.

**Policy Education.** In the information society, people will demand more access and participation in policy decisions at all levels of government. People will also demand more local policy control. At the same time, both citizens and public officials seem less sure about what it is government can and should do. Perhaps there has never been a more important time for land grant social scientists to assist community residents and policy decision makers at all levels of government in understanding the impact of economic, social and policy changes on particular communities. Extension faculty across the United States have long conducted policy education programs. In our judgment, more of these programs must be tailored to address the particular needs of local policy decision makers. They will also need to assist in creating the vehicles and community capacity for a broader, more inclusive local policy decision process.

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