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ASSESSING THE RESEARCH FRAMEWORK AND INSTITUTIONAL CONTEXT FOR RURAL DEVELOPMENT POLICY

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The economic context for rural development has changed markedly since the 1970s. While natural resource industries have continued to decline in importance as rural employers, the internationalization of markets, reorganization of industries, new production technologies, and the rapid development of new information technologies have eroded the competitive position of many rural areas with respect to other industries. In the South, as well as in the rest of the country, the critical rural issue for the 1990s is whether rural areas will be able to find niches to replace those they lost in the 1980s. Thus far, the new economy has been primarily an urban economy, and most rural areas have been left out. This has serious implications for rural development policy.

THE RURAL DISADVANTAGE

The 1980s were difficult for rural areas according to any of several measures. Unemployment rates remained high, considerably higher than in urban areas. Real earnings showed little overall growth and declined for young workers. The lack of rural opportunities was associated with a strong outmigration of better educated young adults and a substantial brain drain (McGranahan and Ghelfi). More than 1240 rural (nonmetropolitan) counties, over one half of all rural counties, lost population between 1980 and 1990 (Beale). Only areas in the immediate sphere of growing cities or having natural amenities—temperate climate, lakes and ponds, or mountains—tended to attract new residents and jobs during the 1980s.

The most recent recession, more associated with a downturn in urban services than previous recessions, resulted in somewhat greater rural-urban parity in unemployment, but the earnings disparity and the outmigration of the better educated continued in 1990, the last year for which data are available.

Rural outmigration is of course not a new story. Except for a brief hiatus in the Depression, outmigration was characteristic of rural areas from the 1920s until the “rural renaissance” of the 1970s. Current concerns about the sustainability of small communities, the outmigration of the better edu-

cated, and the delivery of rural services echo the concerns of earlier decades.

But the phenomena underlying the rural problems of the 1980s appear to have been quite different from those underlying earlier outmigration. Much of the outmigration of earlier decades represented an exodus from marginal farms, and it was accompanied by rising rural incomes and a narrowing of the rural-urban income gap. In contrast, rural per capita incomes stagnated in the 1980s, despite the continued increase in women’s labor force participation and the decline in childbearing. For the first decade in this century, the rural-urban income gap widened instead of narrowed (Fig. 1). The rural Midwest was particularly hard hit, but the rural South’s per capita income also declined relative to urban areas.

EXPLANATIONS FOR THE GROWTH IN THE INCOME GAP

Part of the explanation for the rural economic disadvantage in the 1980s is an old one—a loss of jobs in traditional resource industries. Agricultural employment, including forestry and fishing, dropped by over 10 percent during the decade. Mining experienced a bust after the energy boom at the beginning of the decade, with a loss in employment in rural areas of nearly one third. But traditional resource-based employment is much lower now than it was in earlier decades. The declines in the 1980s, although devastating in some areas, were actually relatively small both in comparison to those of earlier decades and in the context of the current rural economy (Table 1). Moreover, as Figure 1 makes clear, resource industry job loss and outmigration have historically been associated with rising rural incomes relative to urban areas.

A second reason for the rural economic problems in the 1980s was a lack of growth in rural manufacturing jobs. From 1940 through 1980, manufacturing expanded nationally and decentralized from major cities into smaller towns. Rural manufacturing employment increased by nearly 1 million per decade during this period. In both the 1960s and 1970s, the rural South gained over half a million new manufac-

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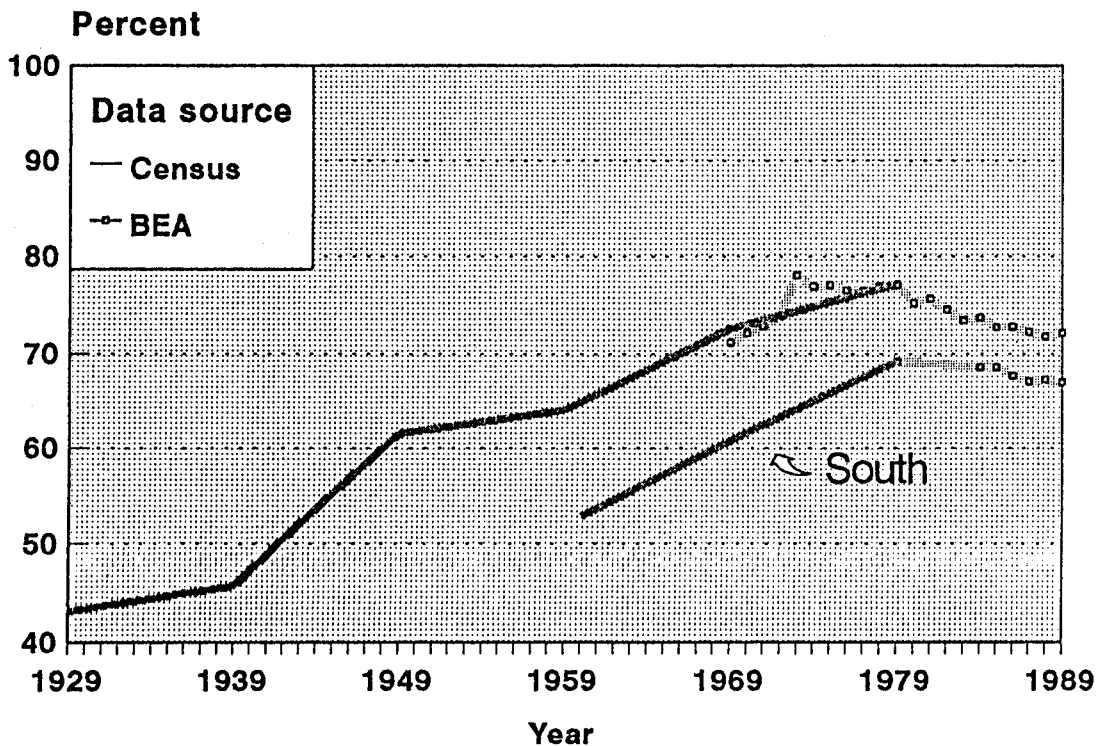


Figure 1. Nonmetro Per Capita Income as a Percentage of Metro Income

turing jobs. These manufacturing jobs absorbed some of the people moving out of agriculture, provided off-farm job opportunities permitting people to stay in agriculture, and enabled some people who had moved to the city to return home. By 1980, manufacturing employed over twice as many rural residents as did agriculture and mining combined. Manufacturing jobs were important contributors to the local economic base, helping to sustain growth in the rural service sector.

From 1980 to 1988, however, manufacturing employment declined nationally and the number of net new rural manufacturing jobs fell to under 150,000, a growth of only 3 percent. Even with this growth, 1988 manufacturing employment was less than at the peak in 1979. This drop had repercussions for rural service growth.¹

Even the failure of rural manufacturing to generate new jobs does not adequately explain the rural economic problems of the 1980s, however. Even though the number of urban manufacturing jobs declined, urban economies showed considerably more economic health than did rural economies in the 1980s.

The critical rural problem in the 1980s appears to have been a lack of participation in the new economy. During the late 1970s and 1980s, increasingly global markets and rapid technological change, both catalyzed by rapidly evolving information systems, meant declining opportunities in traditional production occupations and new opportunities in management, research, and related occupations.

The new opportunities were largely urban opportunities for people with relatively high levels of education. This is evident whether we compare changes in the types of jobs in urban and rural areas, on the basis of changes in earnings, or migration (McGranahan and Ghelfi):

Changes in types of jobs. The urban orientation of the new economy is particularly evident in manufacturing industries. In percentage terms, the change in total manufacturing employment between 1980 and 1988 was relatively small in both rural and urban areas. However, in metropolitan areas, there was a marked shift in the types of jobs, with a tremendous growth in management, research, and professional jobs—over 30 percent—and a substantial decline in production jobs. In nonmetropolitan areas in con-

¹Poorer overall rural economic performance in the 1980s also reflects changes in the classification of counties as metropolitan or nonmetropolitan. According to BEA establishment data, however, the rate of nonmetropolitan manufacturing job growth was greater in the 1970s using the later 1984 definition than it was using the 1973 definition shown. Nonmetropolitan manufacturing growth has not always been faster in the old definition counties.

trast, there was little shift in types of jobs (McGranahan and Ghelfi). The result was an increasing division of labor, with rural areas, more than in earlier decades, confined to low-skill production jobs while managerial and professional jobs located in major urban areas.

Changes in earnings. In 1979, young men working full-time earned about 10 percent more in urban areas than in rural areas irrespective of education. This was probably about equal to the difference in the cost of living.² With the growth of opportunities for better educated workers in urban areas, the urban advantage increased to about 30 percent in 1989. The urban advantage also increased substantially for young women. Thus, by the end of the decade, younger, better educated men and women remaining in rural areas were often making a substantial financial sacrifice because of their choice of residence.

Migration. Not surprisingly, the rural-urban earnings gap was associated with a considerable net outmigration of the better educated workers to urban areas. This migration was especially high for young adults. Both between 1988 and 1989, and 1989 and 1990, the net loss of young adult college-graduates from nonmetropolitan areas was nearly 4 percent. On the other hand, there was a net immigration of less educated young adults to rural areas. This may reflect the fact that housing costs had risen in urban areas during the 1980s, but earnings for the people with no post-high school education had not.

WHY HAS THE NEW ECONOMY BEEN AN URBAN ECONOMY?

There are four general explanations for the urban shift in the economy: low rural human resources, the small size of rural labor markets, the isolation of rural areas, and the restructuring of industrial organization. These explanations are not necessarily incompatible, but where one places the emphasis has consequences for policy.

The human resources argument is essentially that, with relatively low education levels compared to urban workers and workers in other developed countries, rural workers may simply not have had the skills required for the new, complex technologies

Table 1. Change in Nonmetropolitan Employment

Area and Year	Resource industries ^a		Manufacturing	
	(1000s)	(%)	(1000s)	(%)
U. S.				
PopulationCensus (1973 metropolitan classification)				
1940-50	-1094	-15.6	913	41.7
1950-60	-2321	-39.2	811	26.2
1960-70	-1310	-36.4	993	25.4
1970-80	184	8.2	992	20.4
BEA (1984 metropolitan classification)				
1970-80	144	4.4	580	15.0
1980-88	-471	-13.7	144	3.2
SOUTH				
PopulationCensus (1973 metropolitan classification)				
1940-50	-792	-20.9	363	39.8
1950-60	-1377	-46.1	368	28.9
1960-70	-695	-43.1	625	38.1
1970-80	61	6.7	552	24.5
BEA (1984 metropolitan classification)				
1970-80	14	0.9	369	20.0
1980-88	-260	-17.1	96	4.3

^aAgriculture, forestry, fishing, and mining.

being introduced in many manufacturing sectors. Although there is some anecdotal evidence for this view, research to date has not, on balance, been supportive. The earnings and migration patterns discussed above certainly suggest that, if there has been an education bottleneck, it has been urban rather than rural.

A recent study of rural labor market areas found that rural areas with relatively highly educated populations did not have an advantage over other areas in the 1980s in job growth, once the initial industrial mix was taken into account (Killian and Parker). Similar results were obtained when the analysis was confined to the South. Further analyses of these data show that the relationship between area earnings and area education has weakened over time, in part due to the rise in earnings in the South and the decline in the Midwest.³

²These statistics were derived from the 1990 March CPS and the 1980 Census of Population PUMS. Earnings equations were derived for both years for full-time, full-year workers in both metropolitan and nonmetropolitan areas, with: $Earnings = a_0 + a_1 Education + a_2 Education^2 + a_3 Age + a_4 Age^2 + a_5 Age \times Education + a_6 South + a_7 Black + e$. Predicted earnings were estimated for earners 30 years old and with the 1990 proportions South and Black. Results using the 1979 March CPS (which used a substantially different metropolitan area classification) were similar to the 1980 Census results although the urban-rural gap was somewhat smaller across all education levels (See McGranahan and Ghelfi).

³This is not an argument that education is not critical for the future opportunities of rural youth. Real earnings fell for the less educated youth in both rural and urban areas in the 1970s and 1980s while they rose for the better educated. Nationally, the real median income of full-time, full-year male workers aged 25-34 with 12 years of school completed fell by over 20 percent between 1969 and 1989.

Small labor market size may limit the ability of industries requiring specialized labor to develop a sufficient skilled labor pool to operate efficiently. Where work requires little training or specialized knowledge, an industry draws on labor working in services and other industries. As skill requirements increase, small labor markets become much more limiting. Although not directly tested, this argument is consistent with urban concentration of more complex, hi-tech industries. From this perspective, the increasing concentration of high education jobs in urban areas in the 1980s stemmed from a national shortage of new labor force entrants with high education levels, just as the surplus allowed for decentralization in the 1970s.

The remoteness of rural settlements may make them largely unsuitable for activities requiring rapid access to information, technology, and finance. While the rapid development of information technology has suggested to some that information-dependent businesses should be able to move out of urban areas to the countryside, and anecdotes abound about stock market traders and others moving to rural areas with their personal computers, faxes, and modems, there is little evidence that face-to-face contacts have become less important with the new technology. Indeed, it may be that information technology has speeded up the volatility of markets and the pace of technological change, making face-to-face contact more important than ever.

Finally, the reorganization of manufacturing may have increased the salience of the above rural disadvantages. Rural areas specialize not only in industries with routine technology but also in branch establishments. According to D&B data, 29 percent of employment in branch establishments was in non-metropolitan areas in 1980, but only 19 percent of employment was in independent firms. Between 1947 and 1977, national employment in multi-unit firms nearly doubled, rising from 8 million to about 15 million according to the Censuses of manufacturing. During this period, the number employed in single unit firms declined. This shift to multiunit firms facilitated a decentralization of manufacturing employment out of urban areas into small towns. Branch plants can locate in rural areas without requiring auxiliary services (or prompting their formation). From 1977 to 1987, however, the little manufacturing employment growth that did occur was in single unit firms. And, as we saw earlier, the types of jobs being created were analytic types of

jobs, not production line jobs. These trends have left rural areas in a bind. They have thus far been unable to create the information and other infrastructure to be competitive with urban areas for more upscale activities, and understandably unable to offer the low wages to be competitive with production workers in industrializing nations.

IMPLICATIONS FOR RURAL DEVELOPMENT POLICY

Two types of rural areas did prosper in the 1980s and seem likely to continue to do so in the coming decade—areas adjacent to large, growing metropolitan areas and areas with pleasant climates and scenic appeal, and thus attractive for recreation, retirement, and related activities. In many of these areas, the problem may be too much growth rather than a loss of economic activities.

For other areas, the crux will probably be in manufacturing. Whatever the economic health of agriculture, technological change and consolidation are likely to continue to diminish rural job opportunities in agriculture and to reduce local multipliers. Other resource-based industries such as mining and forestry also offer little prospect for employment growth or even stability. Current work by Glasmeier and Howland suggests that most business services cannot compete nationally from a rural location.

The future of manufacturing in rural areas is highly uncertain, too. It seems unlikely that the attraction of branch plants through the development of physical infrastructure will be a viable strategy, if it ever was. In spite of this uncertainty, I think there are some basic implications for thinking about rural development policy that will remain relevant in the coming decade. Indeed, this uncertainty about the future itself has policy implications.⁴

1. Improving the opportunities for rural workers and the opportunities for rural places are not necessarily the same. Although perhaps less so now than 10 years ago, we are a very mobile society. This is especially true of young adults. A recent analysis of the nonmetropolitan National Longitudinal Survey respondents (aged 14-21 in 1979) showed that less than half remained residents of their counties over the succeeding ten years.⁵ A policy to improve the education levels of rural youth is extremely critical for their future and for the future of the country as a whole. But it will not necessarily have substantial effects on the local rural areas investing in education. This lends support to the argument that

⁴The following are personal observations and do not necessarily reflect the views of the Department of Agriculture.

⁵About 23 percent of outmigrants returned in their original county after 10 years, however.

adequate educational spending requires at least some nonlocal support.

2. Whatever its level of formulation, a strategy characterized by flexibility and decentralization is likely to be more effective. People have argued for a decentralized policy on the basis of the diversity of situations that rural areas face. Agricultural, mining, manufacturing, and recreation areas all have different sets of problems, and policies must be sensitive to these differences. The question is more than one of local diversity, however.

According to organization theory, the greater the uncertainty and volatility of an organizational context, the more a decentralized, open, flexible structure is required for effectiveness. Large, vertically organized, formalized structures, while suitable in routine, stable conditions, lack the flexibility to deal with rapidly changing, uncertain environments. We seem to be seeing this in the case of our major corporations, which are attempting to downsize and increase their flexibility through subcontracting types of relationships.

Both the broader economic context for rural policy and the local directions of development are highly uncertain. Local public and private development groups are scrambling to adapt to changing economic opportunities, but it is unclear which local initiatives will succeed where. In this situation, whatever their content, rural development strategies characterized by decentralized, flexible structures seem most likely to be useful.

3. Knowledge and information seem to be key to rural development. There are three aspects to this. The first is the knowledge and skills of the workforce. Without substantial upgrading in skills there is a danger that rural labor will be competing with labor in industrializing nations for jobs. Skill upgrading, however, cannot be effective as a strictly

local undertaking, given the mobility of labor noted above.

The second aspect is the importance of increasing the knowledge and skills of rural business owners and managers. A recent MIT study of U.S. industrial capacity, arguing for the adoption of new industrial technologies and work organization to meet growing international competition, generally gives less emphasis to the training of the U.S. workforce than to the knowledge skills and practices of business owners and managers (Dertouzos et al.). The success of Japanese-managed auto plants in the U.S. is often cited as evidence of our management weakness. The employer skills problem may be particularly acute in rural areas, where access to information is generally more limited, and the adoption of new technologies and methods historically slower. Low employer skills may lie behind some of the inability of rural industries to absorb better educated rural workers.

The third aspect is the need to provide access to knowledge and information about changing opportunities, new methods, and specialized needs to rural people and businesses. Perhaps the major drawback of rural areas in the new economy is the lack of an information infrastructure—a means of gaining information about rapidly evolving situations and new opportunities.

These ideas are not new ones. Much of the agricultural extension system is based on getting ideas out to rural areas. The point is not to insure that any given town or business thrives, but to provide an information-rich environment that increases the effectiveness of the towns, businesses, or groups that take advantage of the information. We do not know enough to prescribe niches for given rural areas. Our goal, rather, is to increase the chances for rural areas to find niches.

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